INTERGOVERNMENTAL FINANCE IN ONTARIO: A PROVINCIAL-LOCAL PERSPECTIVE

by J. STEFAN DUPRÉ

A study prepared for
The Ontario Committee on Taxation

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Preface

To study provincial-local finance in Ontario is to undertake a voyage of discovery. Save for education, well served by the 1950 Report of the Ontario Royal Commission on Education and by K. G. Crawford's *Provincial School Grants*, provincial-local finance at the time of the appointment of the Ontario Committee on Taxation was a dark continent.

Concentrating heavily on provincial grants to municipalities, this monograph constitutes an exploratory probe of the subject. It begins with a brief analysis designed to lend perspective to the peculiar factors that shape provincial-local relations. There follows a detailed historical summary of provincial grants to municipalities in Ontario. These grants are then tabulated, classified and subjected to a statistical examination, the purpose of which is to determine their impact on local finance. A discussion of some of the theoretical implications of grants and shared taxes ensues, after which a few possible avenues of change are explored. The final chapter attempts to broach certain dimensions of education that affect the general provincial-local scene.

The research on which this monograph is based was undertaken in 1963-64. Accordingly, the statistical presentation is now somewhat dated, but there was no development to the time of publication that could significantly affect the findings. In order to bring the historical treatment of provincial-municipal grants up to date, an appendix has been added to the chapter on the subject. The timing of the research affects one particular facet of the presentation: since the Royal Commission investigation of Metropolitan Toronto was then in progress, the more analytical statistical tabulations omit Metro and its constituent municipalities.

I wish to acknowledge a substantial debt to the Commissioners and staff of the Ontario Committee on Taxation, under whose auspices this study was undertaken. It is becoming increasingly fashionable in academic circles to criticize the royal commission device as a means of sponsoring research. While some of the criticism may hold in certain instances, I wish to record my opinion that this Committee poses one of the significant exceptions. I feel bound to point out that much of the material contained within these covers could not have been gathered save through the medium of a public inquiry. Moreover, the Commissioners of the Ontario Committee on Taxation and their staff provided an ideal atmosphere for scholarly inquiry. Among the individuals concerned, I am particularly indebted to Hugh R. Hanson, who proved unfailing in his administrative and moral support, and to Eric Hardy, who generously shared with me his truly encyclopaedic knowledge of Ontario.

I have benefited enormously from highly constructive criticism of an earlier draft of this study. For this I am especially grateful to Lionel D. Feldman and Frederic H. Finnis, and to four academic colleagues: Professor Robert M. Clark

of the University of British Columbia, Professor R. W. B. Jackson of the Ontario Institute for Studies in Education, Professor K. G. Crawford of Queen's University, and Professor John F. Graham of Dalhousie University. (That the home institutions of my professorial colleagues stretch from coast to coast testifies, alas, less to the breadth of my acquaintance than to the thin red line of Canadian academic interest in matters provincial-local.)

My greatest single debt is to Mrs. Ann I. MacGregor, who served as my research assistant, seconded from the Ontario Department of Municipal Affairs. Her rare initiative, unflagging devotion and meticulous attention to detail are reflected in whatever parts of this study may be of value.

Finally, I wish to thank Mrs. Thea Glad for typing the final draft of the manuscript, and Mrs. Barbara Urquhart for her competence and forbearance in seeing it through the stage of final publication.

In confronting the prerogatives that are normally assigned to an author, I have no alternative to accepting the first. I alone must bear responsibility for the material that follows, including all errors, whether of omission or commission. As to the second prerogative, whereby authors occasionally avail themselves of the pleasure of dedicating their product to a loved one, I have decided to refrain from exercising it. But were it not in obviously poor taste to link a dry-as-dust government publication with so gracious a lady, I would have dedicated this monograph to my mother.

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CHAPTER 1

The Nature of Provincial-Local Relations

FINANCE is but one facet of provincial-local relations. Accordingly, it seems appropriate to begin this study with a brief commentary on the general nature of the relations that exist between a province and its local authorities. These relations are often described in a word as "unitary", that is, similar to those between a "sovereign" state and its subordinate local governments. To think of provincial-local relations as unitary provides an important clue to their institutional dimension. But the institutional facet is in any event only part of the story. While provincial-local relations can be examined in institutional terms, they should also be viewed as part and parcel of the broad political process—of the interaction over time of individuals, groups, values and institutions. This chapter attempts to unravel the nature of provincial-local relations in the context of Canada and Ontario first as an institutional phenomenon, then as part of the political process. Each of these perspectives sheds its peculiar light on provincial-local relations, and the two in combination yield insights applicable both to these relations in general and to the financial transactions they generate.

Institutional Dimensions

A useful approach to the institutional nature of provincial-local relations is to contrast them with the intergovernmental relations with which Canadian scholars have been perennially obsessed: those of federalism. Relations between a province and its local authorities, like those between the federal government and the provinces, involve two levels of government. But beyond this elementary point, the institutional differences are staggering. They can be summarized under three convenient headings: law, hierarchy and structure. (1) In *legal* terms, the federal-provincial relationship is based on constitutional law; the provincial-local is based on statutory law. (2) In *hierarchical* terms, the federal-provincial relationship is one of equal to equal; the provincial-local is one of superior to subordinate. (3) In *structural* terms, the federal-provincial relationship is one of relative simplicity, involving the national government with a single set of ten provincial governments each of which has comprehensive jurisdiction over its territory; the provincial-local is one of vexing complexity. Provincial governments do not confront a set of functionally comprehensive municipal governments. Rather, they must cope with a bewildering array of regional governments (e.g. counties or metropolitan municipalities), general-purpose local governments (e.g. cities, towns, townships and villages) and specialized governments (e.g. school boards and health units), It is plain, then, that there exists a marked institutional contrast between federalism and provincial-local relations, whether in terms of law, hierarchy or structure. Let us elaborate on these in turn.

The statutory nature of provincial-local relations means that local governments are creatures of the Province. A province is legally free to create, modify or destroy any and all units of local government. The British North America Act assigns exclusive constitutional jurisdiction over municipal institutions to the provinces,[1] whose effective statutory authority is in turn reinforced by the principle of parliamentary supremacy. Accordingly, the boundaries, functions and institutional forms of local government are all derived from, and sanctioned by, the overriding authority of the provincial legislature. To illustrate this proposition by means of an admittedly extreme example, the Legislature of Ontario could abolish the City of Toronto, include it in a newly constituted municipality called Greater Moosonee, make this municipality solely responsible for mothers' allowances while withholding from it authority over sidewalks, and provide that the government of Greater Moosonee be of the city manager form. Ludicrous though it may appear, this example makes abundantly clear the legal contrast between federalism and provincial-local relations. What is theoretically within the domain of Ontario's legal competence *vis-à-vis* Toronto is out of the question for the federal government *vis-à-vis*, let us say, Prince Edward Island.

The place of local institutions as hierarchical subordinates of the provinces derives from their position as the creatures of provincial statutory law. Local authority is no more and no less than what is expressly laid down in provincial statutes. Local tax sources and expenditure responsibilities are thus determined by the Province, which can also dictate what is to be compulsory and what is to be discretionary. If local authorities are provincial subordinates, however, it follows that the Province itself incurs a degree of responsibility for their proper functioning. Accordingly, provincial involvement in local affairs extends considerably beyond the setting of statutory limitations into the realm of administrative supervision. The degree of tightness with which Canadian provinces hold the reins over their local authorities varies considerably from Province to Province, but certain controls over finance and service standards, together with much administrative guidance, are ubiquitous. Control and guidance lend a strong administrative flavour to provincial-local relations. Unlike federalism, which involves periodic confrontations between political leaders at the highest level, the provincial-local relationship is more commonly articulated at the administrative and appointive level. As Eric Hardy has noted:

> When a municipality approaches the province on any question of genuine importance it is normally represented by one or more elected representatives, perhaps with the support of appointed officials. The local delegation customarily finds, however, that it deals with appointed officials at the provincial level. There may be discussions in which the appropriate Minister is present. But that is not the expected pattern in most instances. In other words, in financial as in other matters the customary choice of spokesmen emphasizes the dominant position of the province.[2]

Consequent on the administrative nature of provincial-local relations is a strong tendency to fractionalize these relations among numerous provincial departments.

[1] *British North America Act, 1867*, s. 92(8).

[2] Eric Hardy, "Provincial-Municipal Financial Relations", *Canadian Public Administration*, Vol. III, No. 1 (March 1960), p. 17.

While this phenomenon can be observed in federalism as a result of the development of conditional grants, its prominence at the provincial-local level is sufficiently marked to colour in decisive fashion the type of relationship involved.

The fractionalized nature of provincial-local relations flowing from hierarchical considerations is greatly enhanced by structural factors. The term "local government" embraces not only general-purpose government but specialized government, and occasionally regional government as well. Furthermore, each type of local government offers additional variety stemming from wide disparities in area, population and resources. The Province accordingly confronts what is literally a confusion of subordinate authorities. From this it follows, first, that public policy toward local governments is often precluded from formulation in general terms and, second, that administrative decentralization is further strengthened. Illustrating these propositions is an exercise in the realm of the obvious. A local tax policy calling for a municipal payroll tax could be workable in a metropolitan centre but futile in rural municipalities. And while Departments of Municipal Affairs might conveniently serve as agents to centralize certain facets of provincial-local affairs, they can hardly be expected to supplant Departments of Education in dealing with school boards or Departments of Health in dealing with health units.

The most cursory institutional examination of provincial-local relations, then, must lead to the conclusion that the Province is an overseer of decentralization. Put another way, the institutional relationship between local government and the province is one of fractionalized subordination.

THE POLITICAL PROCESS

If an institutional analysis of provincial-local relations outlines a blueprint of fractionalized subordination, analysis that tries to take account of these relations as a political process yields a working model that involves two important deviations, one of which partially undermines subordination, while the other substantially enhances decentralization.

Viewed in a broad political perspective, the relations between a province and its local authorities involve a division of power. Any division of power that a society creates through its political institutions will tend to reflect in part the values of that society.[3] This axiom is readily reflected in Canadian federalism where the impetus for a constitutional division of power between the federal and provincial governments lies in the historical, geographical, ethnic, religious and emotional peculiarities of the several regions. Similarly, the provincial-local division of power has a strong basis in values. Historically, for example, the creation of local institutions in what is now Ontario came in response to demands for "grass-roots" government from Loyalists steeped in the town-meeting tradition of New England.[4] Geographical isolation, together with the disparities between urban and rural life,

[3]See, for example, Arthur A. Maass (ed.), *Area and Power* (Glencoe, 1959), *passim.*

[4]See J. H. Aitchison, *The Development of Local Government in Upper Canada 1783-1850*, 2 vols., unpublished Ph.D. Thesis, University of Toronto, 1953. Concerning the Act of 1793 which provided for town meetings, Aitchison notes: "It is clear . . . that the institution was brought by the settlers from the former colonies and was by their efforts legalized in the face of strong opposition from the Government." (Vol. I, p. 191.)

served to enhance the meaning of local autonomy. While ethnic and religious differences have not buttressed local independence in Ontario to the extent that they have elsewhere, various emotional considerations have mixed with rationality to enhance the sanctity of local government. De Tocqueville's dictum that "a nation may establish a free government, but without municipal institutions it cannot have the spirit of liberty"[5] could easily find a place in Canada's national anthem. This dictum, of course, can be made to stand up under strict examination. Local institutions help to safeguard individual rights, yield to the individual a singular degree of access to government, and are indispensable for the efficient discharge of certain public services. But from this strong basis in rationality, local autonomy is greatly enhanced by emotion. Local government boundaries, staked out to meet the requirements of an earlier age, have acquired remarkable resistance to change. In the words of an American political scientist:

> The present quiltwork of local units often fulfills the objectives of particular groups and classes who seek to promote social and cultural homogeneity by maintaining jurisdictional boundaries which protect them from those whose standards they do not share. Furthermore, it provides opportunity to rule for those pitiful elites who inhabit the court house rings, . . . the city halls, content with the personal power which politics may bring though their ambitions must of necessity be small, and oblivious to the issues which attract larger men.[6]

Thus the net result is that local institutions, both for legitimate and questionable reasons, occupy *vis-à-vis* the Province a position considerably different from the subordinate role that their legal status implies. In fact, the Canadian political process is marked by a decided tendency to carry over concepts of federalism into provincial-local relations.[7]

The forces that serve to limit effective provincial authority over local institutions also invade the functional sphere of government, substantially enhancing the forces of decentralization. In most parts of Ontario, for example, school boards historically antecede municipal bodies, often by a time period of several decades. School boards derive from the early practice whereby parents in a geographical area grouped together to hire a teacher. Gradually a pattern emerged whereby the parents would elect a few representatives of their number to act as trustees. The transition to free and provincially supervised schools left the principle of an independent, elected school board intact, and the status of education as a sacrosanct function, insulated from the discharge of other local responsibilities, was assured. This principle continues to stand intact despite circumstances that have made education the largest item of local expenditure and the most important single determinant of a municipality's financial position. The resulting bifurcation at the local level is duplicated in the provincial government where Departments of Education and Municipal Affairs operate in splendid isolation. To be sure, the prov-

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[5]Alexis de Tocqueville, *Democracy in America*, trans. and ed. by Phillips Bradley (New York, 1945, 1954), Vol. I, p. 63.

[6]Robert C. Wood, "A Division of Powers in Metropolitan Areas", in Maass, *Area and Power*, p. 65.

[7]Keith Callard, "The Present System of Local Government in Canada", *Canadian Journal of Economics and Political Science*, Vol. 17, No. 2 (May 1951), pp. 206, 211.

inces have had to take into account the total local position at the highest policy-making echelon, but the division between education and other local functions is none the less real. Institutional divisions born of historical development have been made rigid by forces that find expression in the political process. A similar, if less conspicuous, effect can be observed in such domains as health and conservation. The politics of provincial-local relations is a peculiar kind of group politics where various interests, under the cloak of historically decentralized institutions, have petrified the division of power and placed tight political limits on the legal omnicompetence of the provinces to cope with local government.

THE NATURE OF THE RELATIONS

What, then, is the nature of provincial-local relations? These relations stem from an institutional division of power made rigid by the political process. Historically, the division of power draws its strength from a marriage between democratic values and administrative necessity. Beginning as a fairly clear-cut division of governmental functions between a province and its legally subordinate municipalities and school boards, provincial-local relations gradually developed features of administrative complexity and structural diversity while preserving relatively intact their roots in the environment of an earlier age. While the basic democratic values that underlie grass-roots institutions retain their validity, the political expression of these values has tended to reinforce institutional decentralization both by limiting the extent of provincial legal competence and by moulding the growth of government functions into a further dispersion of institutional forms. The individual—be he politician, administrator or citizen—who confronts provincial-local relations today confronts an institutional pattern of fractionalized subordination which the political process has distinctly complicated by intensifying decentralization and weakening subordination. To coin terminology no less horrendous than it is apt, the nature of provincial-local relations can be defined as a pattern of hyper-fractionalized quasi-subordination.

The findings of this study will offer abundant testimony on the extent to which finance reflects the existing state of provincial-local relations. Thus, for instance, municipalities are very often induced to provide minimal service standards through grants, rather than compelled to do so by provincial directive. Where boundary readustments are needed for the efficient provision of services, the Province may often attempt to secure its end through fiscal incentives rather than direct action. Financially, municipalities are indeed treated on a quasi-subordinate basis. Furthermore, as grant programs multiply, so too an ever-increasing number of provincial agencies enters into the network of provincial-local relations. And an assortment of grants from a multiplicity of agencies serves in turn to spawn an increasing number of local authorities, most of the special-purpose type, and to underwrite the existence of a large number of small municipalities that might not otherwise survive. The nature of provincial-local finance, like that of provincial-local relations, is one of hyper-fractionalized quasi-subordination.

So to characterize provincial-local relations is not to condemn them to a perpetual state of rigidity dictated by a dreary political determinism. Because

provinces continue to possess formidable legal powers over local institutions, they retain the potential to make a clean break from existing patterns of provincial-local relations. Examples can be cited, ranging from the far-reaching reforms in contemporary New Brunswick to the more restrained but none the less notable achievement that was the creation by the Ontario Legislature of the Municipality of Metropolitan Toronto. Nevertheless, the undeniable fact remains that forces embedded in the political process tend to make any clear-cut escape from hyper-fractionalized quasi-subordination difficult if not impossible. This condition continues to capture the essence of provincial-local relations in much of Canada, and certainly in Ontario.

CHAPTER 2

The Development of Provincial-Municipal Finance

DURING 1962-63, the total gross value of Ontario grants to local government was $580,784,000. Excluding the $397,528,000 distributed to school boards which for reasons given in the Preface will be treated separately, there remains a sum of $186,044,000, nearly all of which found its way into municipal treasuries.[1] As Table 2:1 indicates, almost four-fifths of this amount, 79.7 per cent or $148,341,000, was in the form of conditional grants. The principal headings under which conditional grants were made were roads, $83,948,000 (45.1 per cent), welfare, $41,229,000 (22.2 per cent), and miscellaneous (including health, natural resources and agriculture), $23,164,000 (12.5 per cent).

TABLE 2:1

Gross Value of Ontario Grants to Municipalities, 1962-63

	Gross payment	*Percentage of total*
	(*thousands of dollars*)	
Unconditional	25,761	13.9
Payments-in-lieu*	11,942	6.4
Roads	83,948	45.1
Welfare	41,229	22.2
Miscellaneous	23,164	12.5
TOTAL	186,044	100.0

*Includes payments to mining municipalities and payments in lieu of taxes by provincial boards and commissions.

Source: Ontario, *Public Accounts, 1962-63*.

The large portion of grants in the miscellaneous category is but a preliminary indication of the Topsy-like growth that has characterized provincial grants to municipalities in general. Deplorably little is known about the manner in which provincial grants developed. Provincial-municipal finance is an area where information, let alone scholarship, shows an astonishing lag behind policy.

This chapter will attempt a rough-and-ready sketch of the broad development of provincial grants to Ontario municipalities. Conditional grants will be treated first, under the headings of roads, welfare and miscellaneous. There will follow a brief summary of the growth of unconditional grants, and finally a general outline of the changing provincial-municipal scene.

[1]This figure includes grants on behalf of health units, Children's Aid Societies and the like. It excludes all grants to hospital boards because the relation of these bodies to municipal councils has become increasingly distant. In Ontario, the term "municipal" embraces counties, cities, towns, villages and townships.

ROADS

Except for education, conditional aid to local government is a child of the twentieth century. This is readily understandable if we recall that from a historical perspective municipalities are of far greater fiscal importance than the provinces. At the turn of the century, municipal spending by the City of Toronto alone exceeded the budget of the Province of Ontario.[2] In 1913, the expenditure of all Canadian local governments was a full 243 per cent of provincial expenditure, and these entities had retained their 2-to-1 spending edge as late as 1926.[3] Today, by contrast, provincial spending is slightly greater than local if intergovernmental transfers are credited to the provincial budget. Growth in provincial spending is, of course, due largely to new provincial services, higher levels of provincial service, rising population, higher costs and the like. But it is also due to greater provincial sharing in what were traditionally conceived to be local functions. Chronologically (and always excepting education), roads constitute the first major function in which such sharing is apparent. It should be noted that roads are precisely that function which the advent of the motor car revolutionized.

"Up to 1900", the Ontario Deputy Minister of Highways noted a quarter of a century later, "there had been no road (as opposed to street) finances in the province . . . there had been no road finance excepting out of the pockets of rural taxpayers."[4] As a result of several years' agitation by this group for financial relief, the Province of Ontario in 1901 set aside $1 million for road construction grants.

> The municipality, whether township or county, operating under The Highway Improvement Act, was required to eliminate toll roads by purchase or otherwise, to appoint a county or township road superintendent or overseer, as the case might be, and to have the work done with the approval of the commissioner of highways appointed by the Provincial Government. The municipality complying with those conditions was allowed 33⅓ per cent of a government subsidy on their construction cost, but no provision was made for any subsidy on maintenance.[5]

The Highway Improvement Act of 1901, enacting as it did the first set of provincial grants for any local purpose other than education, is more than a legislative landmark. It also offers a case study in provincial-municipal finance whose outline remains relevant to the present day. The legislation resulted both from a grass-roots demand for improved services and from local agitation for relief from municipal taxes. Designed to fulfil these twin purposes, the Act offered what was at once financial relief and incentive (a 33⅓ per cent grant on construction) on the condition that the locality perform certain actions (the abolition of toll roads), take certain organizational steps (the appointment of a road superintendent), formulate and submit a plan to the Province (in the person of the provincial Com-

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[2]S. Morley Wickett, "The Municipal Government of Toronto", *Municipal Government in Canada*, ed. S. Morley Wickett, Vol. II, University of Toronto Studies in History and Economics (Toronto, 1907), p. 50.

[3]Royal Commission on Dominion-Provincial Relations, *Report* (Ottawa, 1940), Vol. III, Table 12.

[4]S. L. Squire, "How Road Construction and Maintenance Are Financed in Ontario", *Convention Proceedings—3rd Annual Canadian Tax Conference, 1925*, p. 92.

[5]T. J. Mahoney, "Highways Development in the Province of Ontario during the Past 100 Years", *The Municipal World*, Vol. LI, No. 3 (March 1941), p. 50.

missioner of Highways), and appropriate money (66⅔ per cent of construction costs). Plainly an incentive program, the grants can also be considered as offering relief to the local taxpayer if the assumption that road construction would have proceeded in any event is accepted. As matters turned out, there is ground to believe that the conditional stipulations of the Highway Improvement Act more than counterbalanced its financial incentives. The $1 million set aside was not exhausted until 1913, at which time only nine of the thirty-seven Ontario counties had passed by-laws to operate under the Act.[6]

During the same year, the Ontario government appointed a royal commission on highway conditions in the province. Subsequently responding to recommendations made by the commission in 1914, Ontario established a Department of Highways in 1915, and two years later created a provincial highway system whose construction and maintenance would be met to the extent of 70 per cent by the Province and 30 per cent by the counties. At the same time, the Province established a 40 per cent subsidy, increased in 1917 to 60 per cent, for roads designated "provincial county roads". Ordinary county roads were made eligible for a 20 per cent subsidy, while "suburban roads"—i.e., heavily travelled roads linking cities and counties—became subject to a grant of 40 per cent on construction and 20 per cent on maintenance.[7]

In 1919, the Dominion passed the first major federal legislation in the field of highways. The Canada Highway Act, 1919, authorized the expenditure of $20 million in road construction and improvement grants to the provinces, the grants to be the equivalent of 40 per cent of the cost of approved projects.[8] Ontario took full advantage of the provisions of this Act, and as a by-product of the federal aid received, the Province raised its subsidy on all county roads to 40 per cent, applicable to both construction and maintenance costs. This increased aid proved sufficient to induce the many counties that had remained aloof under the provisions of the Highway Improvement Act of 1901 to establish approved road systems.

The 1920's and 1930's wrought a rapid series of developments. In 1920 the Ontario government raised its contribution to provincial highways from 70 per cent to 80 per cent and for the first time provided construction and maintenance grants to township roads generally on the basis of 20 per cent of approved cost, together with a contribution of 40 per cent on the salaries of township road superintendents. Four years later the Province instituted a 40 per cent grant on county bridges, and in 1926 the government raised the grants for county and suburban roads to 50 per cent, and that for township roads to 30 per cent. The township road grant was again increased in 1930 to 40 per cent, and raised once more to 50 per cent in 1937, with the possibility of a maximum subsidy of 80 per cent at the discretion

[6]See article by S. L. Squire cited above.

[7]This historical summary, together with much of the information that follows, has been compiled from the articles by Squire and Mahoney cited above, from J. A. P. Marshall, "The Municipalities and the Highway Traffic Act", *The Municipal World*, Vol. XLVIII, No. 4 (April 1938), and from material supplied by the Ontario Department of Municipal Affairs.

[8]The provisions of the Canada Highway Act of 1919, originally enacted for a five-year period, were later extended until April 1, 1928. Of the $20 million spent under the Act, Ontario received the largest portion, $5.9 million. See Canadian Tax Foundation, *Taxes and Traffic* (Toronto, 1955), pp. 67-8.

of the Minister. In 1935 the Province assumed the full cost of the provincial (King's) highway, save for those parts of the highway that made use of the streets of cities, separated towns, towns and villages. Cities and separated towns would be expected to shoulder the entire burden of financing such highway links, while towns with a population above 2,500 would receive a grant equal to 50 per cent of the cost of the link, and towns and villages under 2,500 a grant of 100 per cent.[9]

To round out the intergovernmental picture in the realm of pre-war road finance, passing mention should be made of federal activity. After the lapsing of the Canada Highway Act in 1928, no major federal legislation ensued until the unemployment generated by the Depression forced the issue. Under various Relief Acts, federal grants were initiated for the construction of bridges and for 50 per cent of the cost of a Trans-Canada highway. Ontario, by taking advantage of these grants until 1939, received a total of $23 million.[10] In addition, an indeterminate portion of federal grants for the labour cost of municipal public works was devoted to urban road construction.[11] Other federal funds were applied to railway crossings and tourist highways. But generally, road finance remained as it does to the present day, overwhelmingly provincial and municipal.

TABLE 2:2

Pre-War Road Expenditure by Provincial and Municipal Governments in Ontario Selected Years

	KING'S HIGHWAYS				
	Capital	*Maintenance*	*Total*	*Provincial grant*	*Percentage of total paid by Province*
		(thousands of dollars)			
1922	10,413	2,214	12,628	8,728	69.1%
1925	6,641	2,344	8,985	2,365	26.0
1928	9,783	2,495	12,278	10,063	81.0
1930	11,763	2,890	14,653	11,008	75.0
1933	4,375	1,377	5,752	3,079	53.5
1937	4,801	2,739	7,540	6,123	82.0

	COUNTY ROADS				
	Capital	*Maintenance*	*Total*	*Provincial grant*	*Percentage of total paid by Province*
		(thousands of dollars)			
1903-19	13,887	3,145	17,032	6,511	38.2%
1922	6,906	2,256	9,162	4,258	46.5
1925	4,560	2,049	6,609	3,222	48.8
1928	6,385	2,399	8,784	4,360	49.6
1930	6,443	2,486	8,929	4,418	49.5
1933	1,285	1,774	3,059	1,464	47.9
1936	1,370	2,068	3,438	1,934	56.2
1939	N.A.	N.A.	4,775	2,387	49.9

[9]Ontario Royal Commission on Transportation, *Report* (Toronto, 1958), p. 46. The 50 per cent provincial grant to non-separated towns having a population above 2,500 was to be calculated on the cost of a connecting link not above thirty feet in width. The 100 per cent provincial subsidy to towns and villages under 2,500 was to be calculated on a link not wider than the width of the King's highway where it approached the town or village concerned.

[10]Canadian Tax Foundation, *Taxes and Traffic* (Toronto, 1955), p. 69.

[11]Ontario Royal Commission on Transportation, *Report, passim.*

TOWNSHIP ROADS

	Capital	Maintenance	Total	Provincial grant	Percentage of total paid by Province
		(*thousands of dollars*)			
1922	1,338	1,832	3,170	669	21.1%
1925	1,474	1,721	3,195	995	31.2
1928	3,007	2,704	5,711	1,819	31.8
1930	3,273	2,711	5,984	2,350	39.5
1933	931	1,585	2,516	1,015	40.3
1936	714	2,275	2,989	1,338	60.9
1939	N.A.	N.A.	5,393	2,866	53.1

Source: *Statement by the Government of Ontario to the Royal Commission on Dominion-Provincial Relations*, Vol. III (Toronto, 1938); Ontario, Department of Highways, *Annual Report for the Fiscal Year Ending March 31st 1963*. Figures for township roads include improvement districts and Indian Reserves.

The provincial-local aspects of pre-war highway finance in Ontario are summarized in Table 2:2. The statistics for county and township roads faithfully bear out legislative increases in provincial aid. The provincial portion of total spending on King's highways, however, fluctuates rather widely, owing in part, no doubt, to the amount of municipal spending on highway links in any given year. But certainly the most striking feature of the statistical review is the effect of the Great Depression on road expenditure, particularly for construction purposes. By the mid 1930's capital spending on King's highways stood at 40 per cent of the 1930 level, on county roads at 21 per cent and on township roads at 22 per cent.

Under these depressed circumstances, the Province in 1937 appointed a royal commission on transportation. From an intergovernmental standpoint its Report, released late in 1938, is a singular disappointment. The financial information provided in the Report is extremely sketchy, and analytical efforts are conspicuous by their absence. The Report seems to accept the status quo in provincial-local finance with the single exception of cities and separated towns. As to these municipalities, the Report simply notes without elaboration that "there does not appear to be any principle whereby the complete withholding of [provincial] rebate, subsidy or aid . . . in the matter of their streets or connecting links can be justified."[12] For the rest, the Commission's Report is concerned exclusively with financial, labour and regulatory aspects of the trucking industry, with over-all licensing, and with general principles of highway finance. On the latter subject, the Commission's principal concern lay in the adoption of "pay-as-you-go" financing with respect to highway expenditures. These should be financed according to the benefit principle with an appropriate allocation of motor fuel taxes and licence fees among different classes of vehicles. Unfortunately, the Commission is silent on any of the implications for intergovernmental finance.

As matters turned out, the Commission's lone recommendation bearing on the provincial-municipal field, that involving subsidies to cities and separated towns on a basis similar to that obtaining in other types of municipalities, was not acted on for almost a decade. New intergovernmental developments in road finance, of course, were to be delayed by the war.

[12]Ontario Royal Commission on Transportation, *Report*, p. 183.

While initial minor amendments to pre-war grant legislation, increasing grants to townships, were made in 1944 and 1945, the first important post-war development came in 1946 with provincial creation of a highway category known as "development roads". The Minister of Highways was authorized to designate any road under the jurisdiction of a township, county or improvement district as a development road, and to enter into an agreement with the municipality or municipalities concerned for the construction, improvement or maintenance of the road according to a discretionary rate of grant which in practice has reached as high as 100 per cent.[13] Then in 1947 came a significant broadening of provincial aid as all municipalities, *including cities and separated towns,* became eligible for matching grants of 50 per cent on all approved categories of road, bridge, culvert and street expenditure (construction, improvement, maintenance and repair).[14] The upper limit on the annual provincial grant to any municipality was to be equal to 2 mills on the municipality's taxable assessment. Two years later this upper limit was removed and the rate of grant to cities and separated towns was cut from 50 per cent to 33⅓ per cent, where it remains to the present day.[15] Non-separated towns, townships and villages, for their part, continued to receive a 50 per cent grant and benefited from a later (1955) increase in general road grants to 80 per cent for bridges and culverts deemed necessary by the Minister of Highways.[16] As for the Municipality of Metropolitan Toronto, this body since its inception has been eligible for a grant of 50 per cent on its expenditures for road and bridge construction and maintenance.

The intergovernmental aspects of road finance show a clear trend of growing provincial concern for highway, urban and metropolitan facets of motor vehicle transport. In addition to the general aid described above, cities and separated towns have since 1957 been eligible for grants equal to 50 per cent of the cost of connecting links on King's highways, increased in 1963 to 75 per cent.[17] The Province has also greatly increased its aid for these links to the other municipal categories. Non-separated towns, villages and townships are now eligible for grants of 90 per cent of the cost of King's highway links (the 100 per cent subsidy to localities of under 2,500 population continues) and the standards for approving expenditure have been greatly ameliorated.[18] Grants for suburban roads, originally enacted in 1915, continue to receive emphasis. They have been at a rate of 50 per cent on roads and 80 per cent on bridges since 1947.[19] Finally, highway planning is now subject to considerable attention. Since 1960 any city, town or village may receive a grant equal to 75 per cent of the cost of a study of its road system in relation to the King's highway.[20]

A statistical review of intergovernmental road finance since the War is offered in Tables 2:3, 2:4, and 2:5. From Table 2:3, it can be observed that provincial

[13]S.O. 1946, c. 38, R.S.O. 1960, c. 171.
[14]S.O. 1947, c. 52. Townships, whose basic grant rate was thereby increased from 40 per cent to 50 per cent, remained eligible for discretionary grants of up to 80 per cent.
[15]S.O. 1949, c. 39.
[16]S.O. 1955, c. 28.
[17]S.O. 1957, c. 43; S.O. 1962-63, c. 55.
[18]S.O. 1962-63, c. 55.
[19]S.O. 1947, c. 44.
[20]S.O. 1960, c. 44.

grants to counties have occupied a steady portion of between 53.2 per cent and 55 per cent of approved county road expenditure since 1949. As Table 2:4 indicates, grants to townships steadily hover around the 56 per cent mark. Finally, from Table 2:5, it is apparent that cities, towns and villages have received grants whose effective proportion of approved expenditure since 1949 varies between 37.2 per cent and 40 per cent. This proportion, of course, is composed of two distinct statutory rates, the 33⅓ per cent accruing to cities and separated towns and the 50 per cent accruing to non-separated towns and villages. In this category the sizeable difference between the 1948 and 1949 amounts of approved expenditure reflects in large part the removal in the latter year of the upper limit of 2 mills on provincial grants to cities and towns. With respect to the material presented in all three tables, the outstanding statistical feature is the steady increase in annual expenditure, an increase which in each instance shows a tripling or near tripling of expenditure between 1949 and 1962. The one major road program excluded from tabular presentation is intergovernmental road finance in the Municipality of Metropolitan Toronto. We can simply note that this item involved provincial grants of $15,218,655 in 1962–63. In addition, it should be pointed out that expenditure on development roads, a grant program which is essentially a 100 per cent subsidy, was over $7.7 million in the same year.

TABLE 2:3

Provincial County Road Grants 1945–1962

Year	*Approved expenditure*	*Grant*	*Grant as percentage of approved expenditure*
1945	$ 5,692,079.85	$ 2,898,135.97	50.92
1946	7,392,946.45	3,769,755.43	50.99
1947	9,597,750.67	5,064,601.24	52.77
1948	11,345,808.93	6,176,598.43	54.44
1949	12,645,251.23	6,949,735.96	54.96
1950	12,863,429.71	6,923,703.44	53.82
1951	15,136,060.35	8,058,376.21	53.24
1952	17,373,344.83	9,276,797.84	53.40
1953	16,404,875.09	8,822,596.50	53.78
1954	17,221,063.01	9,393,936.07	54.55
1955	19,193,907.77	10,304,707.49	53.69
1956	22,632,299.59	12,042,792.32	53.21
1957	25,310,514.10	13,832,163.98	54.65
1958	27,044,966.20	14,603,895.24	54.00
1959	31,478,080.94	17,094,520.86	54.31
1960	32,090,731.87	17,613,395.23	54.89
1961	31,210,823.16	17,179,416.16	55.04
1962	35,033,598.28	19,025,879.89	54.31

Source: Ontario, Department of Highways, *Annual Report, 1963* (Toronto, 1963).

Against the statistical background of burgeoning road and street expenditure coupled with the growing role of the Province in shouldering the total financial burden, it will now prove useful to review the historical pattern which the evolution of provincial grants reveals. First, not only is road transportation the oldest major category of provincial grants apart from education, it is also the category that follows most faithfully a framework laid out before World War II. Save for

TABLE 2:4

Provincial Township Road Grants 1945–1962

Year	*Approved expenditure*	*Grant*	*Grant as percentage of approved expenditure*
1945	$ 7,696,533.87	$ 4,177,608.83	54.28
1946	9,366,654.59	5,131,432.11	54.78
1947	12,562,798.76	7,064,222.50	56.23
1948	13,688,529.08	7,763,289.85	56.71
1949	15,262,451.16	8,658,125.77	56.73
1950	15,852,838.23	8,944,246.08	56.42
1951	18,774,705.27	10,544,324.37	56.16
1952	21,261,356.88	11,966,206.37	56.28
1953	20,448,782.51	11,477,684.36	56.13
1954	23,346,392.74	13,185,561.47	56.48
1955	27,026,146.81	15,376,232.29	56.89
1956	30,080,387.33	16,908,428.56	56.21
1957	33,147,636.96	18,530,211.67	55.90
1958	35,683,958.31	19,867,541.32	55.68
1959	41,789,335.40	23,376,726.39	55.94
1960	45,098,684.79	25,150,102.14	55.77
1961	44,505,542.38	24,919,087.33	55.99
1962	46,022,546.96	26,082,619.19	56.67

Source: Ontario, Department of Highways, *Annual Report, 1963* (Toronto, 1963).

TABLE 2:5

Provincial Road Grants to Cities, Towns and Villages 1947–1962

Year	*Approved expenditure*	*Grant*	*Grant as percentage of approved expenditure*
1947	$ 5,334,316.72	$ 2,667,158.49	50.00
1948	5,614,300.68	2,807,150.46	50.00
1949	12,194,258.56	4,550,703.10	37.32
1950	12,834,506.55	4,823,922.36	37.59
1951	15,956,137.03	5,931,088.54	37.17
1952	15,898,102.64	5,946,052.04	37.40
1953	17,598,631.85	6,890,106.26	39.15
1954	18,223,848.41	7,021,797.64	38.53
1955	21,703,070.95	8,560,475.48	39.44
1956	24,456,353.43	9,612,156.92	39.30
1957	25,546,531.26	10,188,038.48	39.88
1958	30,231,140.62	11,723,534.51	38.78
1959	32,890,747.85	12,774,059.54	38.84
1960	36,899,762.02	14,506,072.66	39.31
1961	37,130,872.81	14,862,154.63	40.03
1962	40,193,137.14	15,903,108.14	39.57

Source: Ontario, Department of Highways, *Annual Report, 1963* (Toronto, 1963).

general road and street aid to cities, villages and towns and for the encouragement of highway planning, the Ontario grant framework had been laid by the mid 1930's. Grants for county and suburban roads, subsidies to townships and aid toward the cost of constructing King's highway links were all established at that time. Second, the evolution of provincial road grants has been consistently in the direction of increasing the proportion of provincially financed assistance rather than in the direction of total assumption by the Province of any particular transportation activity. The lone exception to this pattern is the provincial take-

over of the King's highways in 1935. Third, provincial road grants, at least since the 1920's, appear to have been designed not to bring about the creation of new municipal programs but rather to improve existing ones. By and large, they have been designed primarily to stimulate higher standards of municipal performance and secondarily (e.g., grants for urban roads) to alleviate the financial burdens of Ontario municipalities. Finally, action at the federal level of government does not appear to have had any direct impact on provincial-local finance after the 1930's. While the Canada Highway Act of 1919 and the ensuing relief legislation of the Great Depression did stimulate provincial-local relations, there is no evidence that the Trans-Canada Highway Act of 1949 had any such results. The latter, of course, involved only the King's highways which had already long been the exclusive responsibility of the Province. Very recent federal legislation bearing on municipal loans and winter works has affected provincial-local finance somewhat but does not warrant treatment under the specific heading of roads.

WELFARE

Patterns of provincial-local finance in the welfare field vary considerably from those for roads. They start later, are more erratic and are more substantially influenced by federal activity. The legacy of welfare in Ontario is the time-honoured one of exclusive reliance on local authorities to provide "outdoor" relief (i.e. handouts) or "indoor" relief (i.e. the poor house) for their destitute citizens. As late as 1928 the Premier of Ontario could state in a letter to the council of York Township that "Unemployment is an entirely municipal affair . . . it would not be just to use the money contributed by the whole province for purely local relief. The municipality derived the benefits from the workingman in times of prosperity and should be prepared to bear the burden when times are not so bright."[21]

Strange as it may seem to the contemporary observer, Premier Ferguson's statement reveals that welfare policy in the 1920's had already made considerable advances over the previous decade. Indeed, an important distinction had been drawn between the term "unemployment relief" and the generic term "poor relief". Unemployment relief—i.e., the sustenance of unemployed employables—was still considered an exclusively municipal function, but many of the remaining aspects of "poor relief", involving aid to such unemployables as dependent children, needy mothers and the aged, had achieved the status of shared provincial-municipal programs.

Children are the object of the oldest provincial welfare program in Ontario, that of the Children's Aid Societies. The Children's Protection Acts of 1893 provided the basis for the creation of societies throughout the province. These societies, private incorporated bodies with statutory responsibility for the care of orphaned, abandoned or neglected children, were then and are today partially supported by provincial and municipal subventions. Provincial grants to these societies in the early decades of the present century appear to have hovered around $60,000 per year.[22]

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[21]Quoted in A. E. Grauer, *Public Assistance and Social Insurance: A Study Prepared for the Royal Commission on Dominion-Provincial Relations* (Ottawa, 1939), p. 17.
[22]Grauer, *Public Assistance and Social Insurance,* p. 46.

Major provincial legislation for the so-called "unemployables" awaited the year 1920 when Ontario, following the lead of Manitoba in 1916 and Saskatchewan in 1917, instituted mothers' allowances. Based on the theory that destitute children are better raised in the family than in orphanages or foster homes, the allowances were designed to shore up the incomes of families deprived of a bread-winner through death, physical incapacity or abandonment. Under the provisions of the Ontario legislation, the cost of the allowances was split evenly between the Province and its municipalities, with the Province shouldering the entire burden of administration.

The financial aspects of the provincial-municipal mothers' allowance program are summarized in Table 2:6. Between 1922, the first year in which the program appears to have become fully operational, and 1937 its cost increased by a factor of more than 3, from $1.5 million to $4.7 million. The effective municipal share of total expenditure was steadily around 45 per cent because administrative costs and the payment of allowances in unorganized territory accrued in their entirety to the provincial government. In 1937, mothers' allowances became the exclusive responsibility of the Province. They now cost over $12 million annually.

TABLE 2:6

Financial Experience Under Provincial-Municipal Program for Mothers' Allowances

	Administration (provincial)	*Provincial share of allowance*	*Municipal share of allowance*	*Total cost*
1920	$ 8,502	—	—	$ 8,502
1921	77,054	$ 420,080	$ 354,524	851,659
1922	75,624	748,012	631,280	1,454,917
1923	74,472	871,772	735,726	1,681,971
1924	72,384	926,318	781,760	1,780,463
1925	71,647	970,935	810,740	1,853,323
1926	73,473	1,021,279	855,605	1,950,358
1927	73,770	1,094,211	913,345	2,081,327
1928	77,438	1,192,229	998,367	2,268,035
1929	77,894	1,244,738	1,062,150	2,384,782
1930	83,890	1,284,457	1,084,742	2,453,090
1931	86,497	1,392,676	1,181,468	2,600,642
1932	83,085	1,455,102	1,234,624	2,772,812
1933	81,534	1,516,161	1,285,710	2,883,407
1934	82,110	1,640,257	1,385,897	3,108,265
1935 (5 mos.)	29,824	747,886	634,914	1,411,905
1936	80,151	2,133,489	1,813,326	4,026,967
1937	85,274	2,477,971	2,104,553	4,667,799
1938	109,800	5,032,000	—	5,141,800

Source: *Statement by the Government of Ontario to the Royal Commission on Dominion-Provincial Relations,* Vol. III (Toronto, 1938).

The aged constitute the next major category of unemployables to follow needy mothers along a route leading away from municipal responsibility. But in this case the original policy initiative came from the federal government. The Dominion Old Age Pensions Act of 1927 instituted a matching grant for federal-provincial old age pensions to which Ontario acceded in 1929. However, the Ontario share

of the pension costs was itself split between the Province and its municipalities, the former footing 30 per cent of the total and the latter 20 per cent. When in 1932 the Dominion raised its rate of contribution to 75 per cent the Province and its municipalities continued to divide the Ontario share by a ratio of 3 to 2, respectively contributing 15 per cent and 10 per cent. This municipal share was absorbed by the Province in 1937 simultaneously with the mothers' allowances. The financial history of intergovernmental old age pensions—federal, provincial and municipal—is summarized in Table 2:7. The virtual tripling in the cost of the pensions during the time period reviewed in the Table is due to the increasing number of persons over 70 who, because of depressed economic conditions, had incomes sufficiently low to meet the means test that determined pension eligibility.[23]

TABLE 2:7

Financial Experience Under Intergovernmental Old Age Pensions, Federal, Provincial and Municipal

	Federal	*Province of Ontario*	*Municipal*	*Total**
1929	—	$ 13,017	—	$ 13,017
1930	$3,270,583	2,120,649	$1,207,656	6,615,642
1931	4,349,612	2,816,005	1,593,520	8,792,712
1932	6,805,052	1,513,686	825,490	9,160,392
1933	6,992,780	1,551,091	849,873	9,414,764
1934	7,455,903	1,652,279	908,768	10,047,002
1935 (5 mos.)	3,307,599	713,256	403,379	4,439,496
1936	8,419,358	1,817,037	1,026,926	11,294,859
1937	8,926,210	1,934,003	1,089,401	11,980,099
1938	9,517,500	3,279,700	—	12,797,200

Source: *Statement by the Government of Ontario to the Royal Commission on Dominion-Provincial Relations*, Vol. III (Toronto, 1938).
*The intergovernmental portions do not add up to the exact totals because of interprovincial adjustments in the cost of providing relief to transients.

The story of relief to two major categories of unemployables, needy mothers and the aged, follows a path of receding municipal responsibility to eventual total assumption by senior governments. Aid to unemployed employables, on the other hand, offers a quite different pattern of development. Municipalities, considered as late as the 1920's to be the solely responsible agents for unemployment relief, continue to participate in this function to the present day.

It took the ravages of the Great Depression to shatter the poor law myth that municipalities alone should care for unemployed employables. While the myth had been temporarily dispelled by federal grants to meet the emergency created by the brief post-war depression of 1921–22, only in 1930 did unemployment relief assume a permanent intergovernmental position. The Dominion Unemployment Relief Act of 1930 used grants to attempt to meet a rapidly worsening situation through a combination of work projects and direct relief. Municipalities were reimbursed for 50 per cent of their outlays on approved public work projects, the

[23]During the period under review, only very minor changes were made in eligibility requirements. See Robert M. Clark, *Economic Security for the Aged in the United States and Canada* (Ottawa, 1959), Appendix VI.

cost of the grant being split equally by the Dominion and the Province. Where suitable projects could not be devised, the cost of direct relief was divided equally among federal, provincial and municipal governments. Then in 1932 emphasis on public works declined in favour of direct relief because of cost considerations. In that year the Dominion and the provinces agreed to share equally in additional grants to municipalities unable to shoulder their portion of relief expenditure, set by the legislation as one-third. Except for 1933, heavier reliance would be placed on direct relief than on public works for the remainder of the Depression. Then in 1934 the Dominion altered its direct relief policy so that, rather than share in one-third of the expenditures, it would make monthly grants-in-aid, the amount of which would be determined on the basis of provincial need. Finally in 1937 the federal grant to Ontario was fixed at 30 per cent of relief expenditure, with the Province footing 45 per cent and the municipalities the remaining 25 per cent.[24] Financial experience under the various intergovernmental schemes for direct relief is summarized in Table 2:8. The relatively large share of direct relief assumed by the Province in 1934 and 1935 can be accounted for partly by the default of certain municipalities, but mostly by the fact that Ontario's public finances were less adversely affected by the Depression than those elsewhere. Indeed, total relief expenditure in Ontario was less than one-fifth of provincial-municipal revenue, as compared to one-quarter in the rest of Canada. Also, the Province was able to afford a considerably higher outlay for public works than the other provinces.[25]

TABLE 2:8

Intergovernmental Expenditure on Direct Relief in Ontario, Calendar Years 1930–1937

	Federal	*Percent*	*Provincial*	*Percent*	*Municipal*	*Percent*	*Total**
			(dollar amounts in thousands)				
1930	90	34%	90	34%	85	32%	265
1931	1,321	34	1,321	34	1,285	32	3,928
1932	5,483	35	6,266	40	3,917	25	15,666
1933	10,436	37	11,174	39	6,956	24	28,565
1934	10,296	31	15,726	47	7,154	22	33,177
1935	7,650	21	20,772	57	8,143	22	36,565
1936	10,647	34	12,639	41	7,615	25	30,899
1937	6,030	29	9,713	46	5,314	25	21,056

Source: *Statement by the Government of Ontario to the Royal Commission on Dominion-Provincial Relations*, Vol. III (Toronto, 1938).

*The intergovernmental portions do not add up to the exact totals because of interprovincial adjustments in the cost of providing relief to transients.

The cost of direct relief in Ontario continued to be met by all three levels of government under the 30-45-25 formula until 1941. At that time the Dominion withdrew its 30 per cent grant-in-aid while simultaneously introducing unemployment insurance. The year in question marked the close of two decades of constant

[24]The information in this paragraph draws on Grauer, *Public Assistance and Social Insurance*, pp. 17-22, and on the Ontario Department of Municipal Affairs.

[25]Royal Commission on Dominion-Provincial Relations, *Report* (Ottawa, 1940), Vol. I, pp. 168-9.

change in the welfare field, two decades at whose dawn local government shouldered the traditional responsibility of centuries of English practice and at whose close the scene was unrecognizable. What had begun as "poor relief" had become aid to unemployables and unemployed relief. The aid to unemployables started as a program in which municipalities merely shared and ended, with only minor exceptions, as either wholly provincial or federal-provincial. Unemployed relief followed an intergovernmental route of its own, developed a distinction between insurance and assistance, and finished with the first wholly federal and the second provincial and local.

By 1941 municipal responsibilities for welfare had become what they are today—residual. Except for the wholly federal scheme of unemployment insurance, municipalities provide a clearing-house of information on operational welfare services, help needy individuals who lack the qualifications necessary for support under existing programs, retain responsibility in such institutional aspects of welfare as Children's Aid Societies and, of course, pay a share of unemployment assistance—aid to the non-insured unemployed and to those who have exhausted their insurance benefits.

Unemployment assistance, that portion of "unemployment relief" which remained at the provincial and local levels after the creation of unemployment insurance, is by far the most important category in the municipal welfare budget. Its intergovernmental history began in 1941 when the Ontario government agreed to pay 75 per cent of the cost of assistance as a transitional measure. Then as of April 1, 1942, the Province reduced its share to 50 per cent, which remained unchanged until 1957.[26] Once again a revision in provincial welfare contributions would await federal initiative. As announced at the Federal-Provincial Conference of 1955, the federal government, under the Unemployment Assistance Act of 1956, undertook to share one-half of approved relief expenditure with any Province whose relief recipients exceeded 0.45 per cent of provincial population. This so-called "threshold" provision was repealed late in 1957 and the federal government has since absorbed 50 per cent of all provincial-local relief costs. Taking advantage of the federal grants, the Province in rapid sequence raised the rate of its contribution to municipalities from 50 per cent to 60 per cent early in 1957 and then to 80 per cent in December of the same year.

Again as a by-product of the same federal grants, Ontario in 1958 enacted the General Welfare Assistance Act, the statute that now governs the bulk of provincial-municipal relations in welfare matters. The Act, in encompassing both unemployment assistance to employables and relief for residual categories of unemployables not covered under old age and needy mothers' legislation, conforms broadly to the criteria for federal aid laid down by the federal Unemployment Assistance Act. Under the General Welfare Assistance Act, the Province pays 80 per cent (which is actually the sum of 50 per cent federal and 30 per cent provincial money) of the cost of approved municipal relief allowances. And as of 1962, any municipality 6 per cent of whose population has been on relief for five

[26]One minor change appeared in 1956 when the Province offered to contribute the lesser of 60 per cent or $12 a month on the cost of supplemental allowances paid by municipalities to blind persons and certain other special welfare categories.

months can recoup 90 per cent of the cost of the allowances distributed to persons in excess of 5 per cent of the population.[27]

The foregoing developments up to the 1962 changes are given statistical expression in Table 2:9. Beginning with the total picture, the advent of unemployment insurance together with the highly favourable economic conditions generated by armed hostilities slashed annual provincial and municipal welfare spending during World War II to about 10 per cent of the combined federal-provincial-municipal bill for 1938. During the years in which unemployment assistance was wholly in the provincial and municipal sphere, spending rose from a 1942–45 average of about $2.5 million to approximately $7.3 million in 1956. Subsequently higher rates of unemployment, but more especially the federal unemployment assistance grants, the provincial passage of the General Welfare Assistance Act and greatly improved standards of assistance wrought a 1961 spending level more than four times that of 1956.

TABLE 2:9

General Welfare Assistance and Unemployment Relief, 1938–1961

		Province		*Municipalities*		*Federal*	
Year	*Total expenditure*	*Amount*	*Percentage of total*	*Amount*	*Percentage of total*	*Amount*	*Percentage of total*
1938......	$22,374,553	$10,212,768	45.64	$ 6,581,785	29.42	$ 5,580,000	24.94
1939......	19,563,648	8,467,108	43.28	3,655,356	18.68	7,441,274	38.04
1940......	9,668,352	4,146,416	42.89	1,843,804	19.07	3,678,132	38.04
1941......	4,120,440	3,136,699	76.13	983,741	23.87	—	—
1942......	2,846,711	1,481,880	52.06	1,364,831	47.94	—	—
1943......	2,343,849	1,222,829	52.17	1,121,020	47.83	—	—
1944......	2,252,100	1,182,816	52.52	1,069,284	47.48	—	—
1945......	2,492,426	1,314,895	52.76	1,177,531	47.24	—	—
1946......	2,826,605	1,483,705	52.49	1,342,900	47.51	—	—
1947......	3,533,786	1,807,179	51.14	1,726,607	48.86	—	—
1948......	4,122,337	2,211,165	53.64	1,911,172	46.36	—	—
1949......	4,500,632	2,397,328	53.27	2,103,304	46.73	—	—
1950......	5,016,416	2,686,982	53.56	2,329,434	46.44	—	—
1951......	5,742,113	3,037,639	52.90	2,704,474	47.10	—	—
1952......	5,334,494	2,831,241	53.07	2,503,253	46.93	—	—
1953......	5,269,972	2,811,127	53.34	2,458,845	46.66	—	—
1954......	6,254,709	3,338,428	53.37	2,916,281	46.63	—	—
1955......	6,900,576	3,665,337	53.12	3,235,239	46.88	—	—
1956......	7,247,923	3,890,767	53.68	3,357,156	46.32	—	—
1957......	9,505,543	4,534,178	47.70	2,835,904	29.83	2,135,461	22.47
1958......	16,623,375	6,379,594	38.38	3,147,608	18.93	7,096,173	42.69
1959......	18,712,502	5,515,452	29.47	3,591,882	19.20	9,605,168	51.33
1960......	23,750,261	8,450,733	35.58	4,583,800	19.30	10,715,728	45.12
1961......	31,950,267	10,907,443	34.14	6,440,152	20.16	14,602,672	45.70

Source: Ontario, Department of Public Welfare, *Annual Reports.*

Turning from the totals to the intergovernmental breakdown, both provincial and municipal contributions are marked by steady increases since the War. Nor is there an apparent slackening in the pace of provincial-local increases since the entry of the federal government in 1957, although a minor portion of the municipal increase since 1958 can be ascribed to the provincial sharing of certain residual

[27]O.R. 175/62.

welfare expenditures that would not have been counted prior to the passage of the General Welfare Assistance Act.[28] By and large it is fair to say that since rates of unemployment were relatively uniform between 1958 and 1961, most of the increase in provincial and local spending can be attributed to enhanced welfare standards. With respect to the municipal position, however, it should be noted that the pronounced decline in the relative share of welfare costs from 46 per cent in 1957 to 20 per cent in 1961 is overshadowed in absolute terms by a near doubling of expenditure in the same time period.

Having reviewed the most costly aspects of the welfare function, there now remains the task of sketching the development of two more specialized services—Children's Aid Societies and homes for the elderly. As noted above, Children's Aid Societies were the recipient of *ad hoc* provincial subsidies as early as the turn of the century.[29] But only in 1949 did the Societies become the object of regular provincial-municipal grants. In that year a provincial statute provided for a grant equal to 25 per cent of the municipal liability to the Societies for the cost of maintaining children in foster homes or institutions.[30] This grant was continued when legislation regarding children was greatly revised under the Child Welfare Act of 1954, and in 1957 the 25 per cent contribution was increased to 40 per cent.[31] The 1954 Act also provided for other grants payable directly to Children's Aid Societies but indirectly helpful to the municipalities which the Societies service. These grants include a flat subsidy graded according to population and ranging from $1,500 where the population under a Society's jurisdiction is under 5,000 to $5,000 where the population is 15,000 and above.[32] Grants involving Children's Aid Societies totalled some $5.5 million in 1962-63, of which by far the largest amount ($4.3 million) was the 40 per cent provincial share of child maintenance.

At the other end of the life cycle, provincial solicitude for the care of the needy aged goes back in time at least as far as the Children's Aid Societies. Again solicitude must be defined without any overtones of generosity until the post-war era. The grimly entitled Houses of Refuge Act, dating from 1890, made capital grants available through the first half of the present century, reaching a level of 25 per cent of the cost of erecting a building in 1947.[33] In 1949 the capital grant was increased to 50 per cent, and for the first time municipalities became eligible for a maintenance grant of 50 per cent.[34] Then in 1955 the Province agreed to pay 50 per cent of the cost of maintaining elderly persons in private dwellings supervised by the home for the aged.[35] Both maintenance grants were increased

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[28]Residual welfare programs such as supplementary allowances to the blind are not eligible for federal contributions under the federal Unemployment Assistance Act. But since the effective federal contribution to welfare remains at 45 per cent, it can be safely assumed that the cost of residual programs is low and that any portion now appearing under the municipal heading is likewise small.

[29]These subsidies, presumably recommended by the Provincial Superintendent of the Societies, were largely to assist in the costs of establishment.

[30]S.O. 1949, c. 11. The same statute also provided for flat grants ranging from $500 to $2,000 and payable directly to the Societies.

[31]S.O. 1957, c. 12.

[32]The Province also pays Societies a capital grant of up to 25 per cent of the cost of acquiring land and erecting a building. S.O. 1956, c. 8; S.O. 1957, c. 12.

[33]S.O. 1947, c. 36.

[34]S.O. 1949, c. 41.

[35]S.O. 1955, c. 30. The ceiling was $30 per month per individual, increased to $32.50 in 1956 and $37.50 in 1957.

to 70 per cent in 1958.[36] Outside the field of old people's homes and related care, the Province since 1952 has assisted in the construction of low-rental housing for the aged with a grant of 50 per cent of costs to a ceiling of $500 per dwelling unit.[37] Housing projects for the elderly have been mainly in the federal domain where the provisions of the National Housing Act apply. Most recently, the Province has begun to pay 30 per cent of the cost of constructing social and recreational centres for the aged where a municipality has contributed at least 20 per cent.[38] A final welfare program bridging all age groups has been in force since 1958. Under the Homemakers and Nurses Services Act[39] the Province shares equally with municipalities to a stipulated ceiling whatever portion of the cost of these services the recipient is unable to pay.

It is evident that provincial involvement in the provision of selected services to the aged, to children and to the bedridden, though covered in the first two cases by relatively ancient precedents, is largely a post-war phenomenon. The same holds true of the levels and standards that now characterize general welfare assistance. To be sure, such important departures as total provincial assumption of needy mothers' allowances and old age pensions (later assistance) were policy landmarks of the 1930's. But the shaping of provincial-municipal finance in welfare remains much more recent and turbulent than in the transportation field. Federal involvement is also far more marked; but social welfare, as befits a function that engages the nation's conscience, is perhaps bound to be more volatile than a function whose benefits can be measured in miles of concrete pavement. Social welfare, of course, can again be distinguished by the vociferous complaints it has evoked among municipal politicians and administrators. But this is a subject for a later chapter.

MISCELLANEOUS GRANTS

If provincial-municipal finance in the road and welfare fields is somewhat bewildering, it remains the essence of simplicity next to what for the sake of convenience we now present under the heading of "miscellaneous". Here is a veritable Pandora's box containing items that run the gamut from the museum to the jail, from the dentist's chair to the coroner's office and from the warble fly to the big bad wolf. What follows is accordingly a random set of notes that is broken down, on a purely arbitrary basis, into the following sub-headings: general government, protection, health, environmental, specialized and residual.

General Government

Provincial subsidies affecting general government at the municipal level are heavy with age but light in fiscal importance. Grants for such functions as the registering of deeds and coroner's inquests all date from the turn of the century but involved an expenditure just slightly above $60,000 in 1962–63. Two other grants arbitrarily warrant inclusion under the "general government" rubric; both

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[36]O.R. 148/58. The ceiling on maintenance in private homes was raised to $52.50 per month.
[37]S.O. 1952, c. 27.
[38]S.O. 1961-62, c. 37.
[39]O.R. 220/58.

are recent and smack of the taxes-and-death dimension of twentieth-century life. On the tax side, the Province since 1962 has made grants of up to $2,500 toward the salary of a county assessment commissioner. These involved a total expenditure of $57,000 in 1962–63. As to death, or at least that particular kind of death which would result from a nuclear holocaust, the Province since 1959 has shared in the Federal Emergency Measures Assistance Program to municipalities. Provincial expenditure under this heading for 1962–63 was approximately $233,000.

Protection

Three provincial grants can be grouped together as offering aid to municipal protective services. All are of recent vintage. Two of the three are the offshoot of a broader grant program initiated in 1949, and subsidize municipal outlays for pension plans and workmen's compensation for firemen and policemen. They are paid according to an identical sliding scale that provides for provincial contributions of 25 per cent where municipal population is under 10,000, 20 per cent where it is between 10,000 and 24,999, 15 per cent where it is between 25,000 and 69,999, and 10 per cent where it is 70,000 and over.[40] Annual provincial expenditure for these grants is approximately $500,000. The third provincial grant for protective purposes was instituted in 1962 and provides 10 per cent toward the annual cost of county or city jails.[41]

Health

Among the provincial grant programs for public health, that which subsidizes the administrative costs of local health units is of more than passing interest since it represents a deliberate attempt to induce reorganization of municipal health activities through fiscal incentives. In 1940 the Province began to encourage separate municipalities to consolidate their public health services by the creation of health units. A grant schedule was drawn up whereby the Province would pay 50 per cent of the expenditures of a health unit save where the unit included a city. For units containing cities, the grant was scaled downward on the city's contribution in three steps related inversely to population: 33⅓ per cent of the city contribution if the population of the city was less than 25,000; 25 per cent if between 25,000 and 99,999; and 15 per cent if between 100,000 and 150,000. This grant program has produced some thirty-six health units, blanketing twenty-six of Ontario's thirty-eight administrative counties, with jurisdiction over parts of four more. Municipalities wishing to form a health unit must receive the approval of the Lieutenant Governor in Council. Health unit grants involved a provincial expenditure of approximately $1.5 million in 1962–63, some 85 per cent of total public health grants. They constitute the provincial subsidy most clearly aimed at inducing municipal reorganization.[42]

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[40]The grant program from which these payments stem was in effect from 1949 to 1954 and is discussed below in the section dealing with unconditional grants.

[41]The Province can also make discretionary grants for jail construction but the operational state of this program was not clear in 1963.

[42]There exists a program whereby grants to welfare units could be authorized but there is no indication that this program is operational. At the time of writing, only three welfare units existed in Ontario.

Aside from the health unit program, the remaining categories of provincial health subsidy include school dental services (initiated in 1933), insulin (1940), diagnostic laboratories (1937), public health nursing in schools (1944) and venereal disease clinics (1944). These subsidies are generally based on provincial reimbursement of a part of the municipal costs incurred. Their cost to the Province in 1962–63 amounted to some $200,000. While they have been revised from time to time, they have not undergone any drastic change since their inception, which for all of them dates back at least two decades.

Environmental

Provincial grants herein dubbed as environmental are financial programs that affect the municipal environment, whether urban or rural, through the provision of physical and cultural amenities or the preservation and amelioration of natural surroundings. The physical and cultural amenities currently the object of provincial subsidies include community halls, recreation programs, public libraries, museums and general redevelopment. Grant programs aimed at the improvement of natural surroundings encompass forest fire prevention, conservation authorities, reforestation and parks.

Among physical and cultural amenities, community halls, now called community centres, are the oldest object of grant legislation. Provincial aid to community centres was first authorized in 1919 and called for payment of 25 per cent of the cost of a community hall or athletic field up to a ceiling of $2,000, which was raised in 1948 to $5,000.[43] Under substantially revised legislation enacted in 1949, grants were extended to cover skating arenas and outdoor rinks, the rate remaining at 25 per cent but with a ceiling of $10,000.[44] Indoor and outdoor swimming pools were made eligible in 1951.[45]

Recreation and community programs, as distinct from centres, have received provincial aid since 1945. These programs have gone through a bewildering array of amendments since their inception but in general apply to the cost of the salaries of full-time recreation directors and their staff. The percentage of cost borne by the grant is normally 33⅓ per cent. Grants similar in form to those for recreation programs were extended to museums in 1957. Here again the bulk of the grant pays for one-third of curators' salaries.

Public libraries have been grant recipients since 1946. Under frequently amended and extremely complex legislation, public libraries have come to receive two broad types of grant. One involves flat contributions for salaries based on the quality of the librarian's certificate. The other is a grant on approved costs varying inversely with equalized taxable assessment per capita along a scale beginning with 7 per cent of costs where assessment per capita is $2,400 or more and increasing to 63 per cent of costs where assessment per capita is under $600. As of 1962, the latter grant was the only major program other than education to take account of municipal fiscal capacity on a formula basis.[46]

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[43]S.O. 1919, c. 55; S.O. 1948, c. 12.
[44]S.O. 1949, c. 13.
[45]S.O. 1951, c. 12.
[46]The grant is administered by the Department of Education.

Last among the grants grouped under physical amenities are those for general redevelopment. The principal redevelopment program, initiated in 1960, is now made under umbrella legislation which permits the Minister of Municipal Affairs, with the approval of the Cabinet, to enter into specific agreements to share with municipalities in the cost of "planning, designing, resubdividing, clearing, developing, reconstructing and/or rehabilitating"[47] and in the cost of providing any new class of building (residential, commercial, etc.), within the redevelopment area.[48] Substantial federal funds are incorporated in provincial redevelopment subsidies, and federal as well as provincial approval of municipal projects is the rule.

Just as grants for the provision of physical and cultural amenities are largely a post-war phenomenon, so are subsidies for the amelioration of the natural environment. Forest fire prevention, which dates from 1933, provides the lone exception.[49] Conservation authorities have been eligible since 1946 for grants equal to 75 per cent of approved expenditures on reservoirs and flood control studies, and 50 per cent of the cost of developing and maintaining conservation areas, parks, flood control projects and the like.[50] Where the federal and provincial governments have entered into an appropriate agreement, conservation development and maintenance costs may be met by a grant as high as 75 per cent, apportioned equally between the two governments. In the domain of reforestation, the Province in 1960 launched a grant program that authorizes the Minister of Lands and Forests to share in the cost of acquiring land.[51] Finally—also in 1960—parklands became the object of grant legislation whereby the Province can share in the cost of acquiring, developing and improving municipal parks and can help municipalities to construct access roads to provincial parks.[52] Total expenditure under grants oriented toward the natural environment in 1962-63 was approximately $5 million, of which by far the largest portion ($4.4 million) was that for conservation authorities.

Special

The grants selected for inclusion under this heading are those likely to concern certain municipalities only. Without exception, they are in the rural domain. First in fiscal importance is a grant of 50 per cent toward the capital costs of distributing electric power in a rural area. Except that its coverage was limited to northern Ontario in 1958, this grant has been unchanged since its inception in 1921 and involved a disbursement of almost $1 million in 1962-63. Next in order of importance is provincial aid for drainage. Dating from the 1930's, this program

[47]S.O. 1962-63, c. 105.

[48]Since 1948, the Province has made grants to authorities engaged in the provision of public housing. These are not grants to municipalities in the strict sense but tie in closely with municipal finance. Note should also be taken of the grants for building development studies made by the Department of Economics and Development. Municipalities, groups and individuals are all eligible.

[49]S.O. 1933, c. 17.

[50]S.O. 1946, c. 11. At the time of writing, there was a grant ceiling of $10,000 on any individual in any given year. Certain defined administrative expenses could be supported by a provincial grant of 50 per cent.

[51]S.O. 1960, c. 39.

[52]S.O. 1960, c. 80.

now provides grants of 33⅓ per cent to counties and of 66⅔ per cent to municipalities in unorganized territory toward the cost of drainage and flood prevention schemes.[53] Program expenditures in 1962-63 were approximately $750,000. As to the remaining grants, the Province pays 50 per cent of the cost of plant disease inspectors' salaries since 1941, and a similar portion of the remuneration of weed control inspectors since 1946.[54] Soil improvement projects in counties qualify for 50 per cent subsidies with a ceiling of $2,000.[55] Last, provincial-municipal finance extends to the animal kingdom. The extermination of the warble fly has been encouraged since 1949 through grants equal to 50 per cent of the cost of inspectors and Derris powder. And the demise of wolves and foxes is promoted through provincial matching grants on bounties. Established in 1897, the wolf bounty grant is the oldest municipal subsidy still extant.

Residual

That a chapter section headed by the words "Miscellaneous Grants" should have to have a subsection devoted to "residual" grants is effective testimony to the diversity of provincial-municipal finance. The grant programs that defy classification are disaster relief, tourism, day nurseries, winter works and the Confederation Centennial. Disaster relief has long qualified for both federal and provincial aid on an *ad hoc* basis. Since 1951, regional tourist organizations can qualify for grants of up to $5,000. Municipally operated day nurseries for the children of working mothers became eligible for a 50 per cent provincial subsidy in 1946. The federal-provincial winter works program initiated in 1958 provides to a municipality grants equal to 75 per cent of the direct cost of labour employed in approved public works projects. The 75 per cent grant is composed of a 50 per cent federal share and a 25 per cent provincial share. Municipalities located in designated high unemployment areas can qualify for a 90 per cent winter works grant (60 per cent federal plus 30 per cent provincial). Finally, Confederation Centennial grants have also been a federal-provincial undertaking. Municipal projects designed to commemorate this joyous occasion were eligible for a grant equal to the lesser of 66⅔ per cent of cost, evenly split between Ottawa and the Province, or $2 per capita on the local population. The fiscal importance of the residual grants is slight save for winter works.

No discussion of a residual category of miscellaneous grants would be complete if it did not take note of one last program that is occasionally considered to be a grant but actually is not. The program in question is the time-honoured practice whereby the Liquor Control Board pays to municipalities 20 per cent of the fees collected from holders of beer, wine and liquor licences and 60 per cent of the fines imposed for violations of the Liquor Control Act. Liquor Control Board remissions yield over $1 million to municipalities annually, and in fact constitute a payment for municipal enforcement of the Liquor Act.

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[53]The Drainage Act was substantially amended in 1962-63 to accommodate the grants that will be made jointly by the Province and the federal government as a result of the federal Agricultural Rehabilitation and Development Act.

[54]By indeterminate authority, grants can also be made for weed control equipment.

[55]The year in which these subsidies were first made cannot be determined as no legislative authority exists.

The reader who has laboured through the above tortuous treatment of miscellaneous provincial grants may be excused if he pauses to wonder why this maze of subsidies exists. Two quick answers come to mind. First, *ad hoc* provincial policies, whether toward wolves in 1897 or parks in 1960, have extended to highly detailed matters that were either already under municipal jurisdiction or were thought best suited to local administration. The inevitable result was a haphazard accumulation of grant programs over time. Second, conditional grants at the federal-provincial level have begotten conditional grants at the provincial-municipal level. Among the motley assortment of programs just reviewed, this dictum extends among others to conservation, agriculture, winter works, redevelopment, disaster relief and the Confederation Centennial. Whether laudable or not, the proliferation of conditional grants is at least sanctioned by decades of practice.

UNCONDITIONAL GRANTS AND PAYMENTS-IN-LIEU

By contrast to conditional aid, unconditional help for Ontario municipalities has a brief history. It first appeared in 1936 when the Province pre-empted local government from the income tax field. In that year the Province compensated the affected municipalities with *ad hoc* grants. Then in 1937 general unconditional grants were extended to all municipalities (counties excepted) under the Municipal Subsidy Act. This statute provided for an annual payment equal to the amount that would be produced by a rate of 1 mill on the assessed value of taxable property in each municipality. Strictly speaking, the grant was not entirely free of conditions, for the municipal council was to use the subsidy "solely for the purpose of reduction of the general municipal tax rate . . . so that the benefits of such grant or subsidy [would] . . . accrue, directly, to the benefit of the ratepayers of the municipality, and the same [should] . . . not be applied or used by the council for any other purpose."[56] Recalling that the Province at the same time absorbed old age pensions and mothers' allowances in their entirety, 1937 stands out as a year of substantial departures in provincial-municipal finance. Reviewing the changes involved, an official provincial statement noted that "the Province was able to accomplish such policy by reason of the fact that it had brought its own budget into balance and was able to pass the benefits back to the taxpayer in the form of reduced municipal taxation."[57] The general validity of this statement is borne out if the changes in provincial welfare policy are considered jointly with the 1-mill subsidy. However, the degree of property tax relief wrought by the unconditional aid alone plainly favoured the smaller municipalities as opposed to the cities that had previously levied an income tax. Indeed, for the City of Toronto, the first grant paid under the Municipal Subsidy Act fell short by $200,000 of the last municipal income tax collection.[58]

Unconditional grants were made without interruption for slightly more than a decade. They were based on the original 1-mill formula throughout save for two

[56]R.S.O. 1937, c. 273, quoted in K. G. Crawford, *Canadian Municipal Government* (Toronto, 1954), p. 243. It should be noted that, save in the year of inception, provincial policing of this condition would be virtually impossible.

[57]*Statement by the Government of Ontario to the Royal Commission on Dominion-Provincial Relations* (Toronto, 1938), Vol. II, p. 74.

[58]Civic Advisory Council of Toronto, *Municipal Finance* (Toronto, 1950), p. 20.

years—1939 when the rate was 1½ mills and 1944 when the rate was 2 mills. Then in 1949 the Province revoked unconditional aid and substituted a rather complex arrangement in which conditional grants played a substantial role. The reason for this action is not clear from the public record but was probably twofold. First, the use of unequalized assessment as the basis for the 1-mill subsidy created a disincentive to efficient assessment practices; second, the Province had become concerned with promoting greater uniformity in certain peculiarly municipal services. The latter motive is strongly apparent in the program that the Province devised in lieu of unconditional grants. This program offered a combination of unconditional grants made under the authority of two distinct statutes. A Fire Department Act provided to every municipality operating a fire department a grant designed to reimburse varying portions of the previous year's costs. Municipalities were divided by population into four classes with rates of grant as follows: (a) under 10,000, 25 per cent; (b) 10,000 to 24,999, 20 per cent; (c) 25,000 to 69,999, 15 per cent; (d) 70,000 and over, 10 per cent. A Police Act instituted similar grants on an identical schedule for municipal police departments. Under supplementary legislation, the Province guaranteed that a municipality's revenue under the two Acts would not fall below the amount provided by the 1-mill subsidy in 1948.

On the face of the evidence, it is apparent that Ontario's new grant program was designed, perhaps even more than the old, to favour the smaller municipalities. The program's emphasis on police and fire protection offered strong incentives to sparsely populated localities to improve the levels of two services bound to be already well established in most large cities. As to the largest city in Ontario, a contemporary study of Toronto finances indicated that that city would probably benefit less than under the old legislation.[59]

Partly at the behest of the City of Toronto itself, the Province in 1951 appointed a Provincial-Municipal Relations Committee. After one year of study this Committee, in a letter to Premier Frost dated December 19, 1952, recommended the abandonment of the fire and police grants. It noted that the grants had quickly served their purpose in helping municipalities achieve satisfactory service standards and suggested that henceforth they would simply tend to give undue preference to policemen and firemen "as compared with other equally essential public employees".[60] In their stead the Committee urged a return to unconditional grants to be made according to drastically revised criteria. On the basis of a somewhat sketchy statistical study,[61] the Committee suggested "that there be paid an unconditional per capita grant *graded upward*, according to population",[62] this because of presumably higher per-capita costs in the provision of health and welfare services in the more populated municipalities.

The Province accepted this recommendation and thereupon enacted the

[59]Civic Advisory Council of Toronto, *Municipal Finance*, p. 88. It is of more than passing interest to note that Toronto in 1948 completed a general reassessment of property which could have considerably augmented its revenues had the 1-mill subsidy continued.

[60]Ontario Provincial-Municipal Relations Committee, *Progress Report* (Toronto, 1953), p. 44.

[61]Statistical studies of municipal costs will receive attention in a later chapter.

[62]Ontario Provincial-Municipal Relations Committee, *Progress Report*, p. 45. Italics added.

Municipal Unconditional Grants Act of 1953. This Act provided, beginning with the calendar year 1954, per-capita grants based in part on municipal status, in part on municipal population. From a base amount of $1.50 per capita, the grant formula called for graded increases ranging from $0.10 per capita for towns and villages in the population class 2,000 to 4,999 to $2.50 for metropolitan municipalities and cities having a population of over 750,000 (i.e. Metropolitan Toronto). The essential provisions of the 1953 Act have remained in force but important amendments made in 1957, 1960 and 1964 warrant discussion.

In 1957, the Province abolished the basic universal grant of $1.50 per capita and replaced it with a two-part subsidy. The first was a grant of $2 per capita "to assist each municipality in Ontario in the provision of welfare and social services";[63] the second was a grant of $1 per capita to municipalities contributing to the cost of the administration of justice in a county (i.e. all municipalities except those in northern Ontario. The schedule providing additional per-capita amounts on the basis of population remained unchanged. The resulting net increase in per-capita aid was accordingly $0.50 for municipalities in unorganized territory (the difference between $1.50 and $2) and $1.50 for the other municipalities (the difference between $1.50 and $3). However, this increase in per-capita aid was hedged about by an extremely important provision. The unconditional aid henceforth received must be used to lower the tax burden on residential and farm property. This qualification can be viewed as a partial return to the 1937 provisions requiring that unconditional grants be applied to relieve the property tax burden—partial in that only two classes of property would now be so privileged. The present differential mill rate thus dates from 1957.[64]

The year 1960 brought the next change in unconditional grant legislation. Responding to long-standing municipal requests for aid toward financing the cost of hospitalizing indigent patients, the Province authorized a grant to be paid as a supplement to unconditional aid. As of 1964, the amount of the supplementary payment was set at 80 per cent of a municipality's liability to hospitals on behalf of indigent patients. The relation that payments for indigent hospitalization bear to unconditional grants varies widely from municipality to municipality. A random sample of Ontario municipalities reveals that the payments range from 0.9 per cent to 23 per cent of the unconditional grant. Whatever its relative importance, the supplement has had the net effect of burdening unconditional aid with extraneous material.

The 1964 amendment to unconditional grant legislation is nominal in that the Province removed explicit mention of the basic $2 per-capita grant for welfare and

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[63]S.O. 1957, c. 80.

[64]The mill rate differential between residential and farm property on the one hand and industrial and commercial property on the other was subsequently further increased as a matter of deliberate policy under school grant legislation. The Residential and Farm School Tax Assistance Grants, created in 1961, paid $5 per elementary and secondary pupil in 1961-62, $15 per elementary and $5 per secondary pupil in 1962-63, and $20 per elementary, $30 per secondary and $40 per vocational pupil in 1963-64 toward the residential and farm mill rate. These grants lapsed after 1964, but the basic stipulation under which they were made, i.e. that there be a 10 per cent mill rate differential in favour of residential and farm property remains in effect. Accordingly the total mill rate differential at present is the sum of school and unconditional grant provisions.

social services and simply incorporated the $2 into its graded population schedule. A per-capita differential of $1 between municipalities that contribute to the administration of justice in counties and those in territorial districts was maintained. The revised grant schedule is laid out in Table 2:10.

Table 2:11 sketches the statistical dimension of unconditional and related grants from 1937 to 1962. Standing out from the old 1-mill subsidy, the special 1½- and 2-mill grants are readily seen in the figures for 1939 and 1944. The fire and police grants, which first take effect in 1949, do not involve any noticeable growth in provincial outlay until 1952 when presumably higher costs due to improved standards result in larger grants. On the other hand, the spending impact of the unconditional grants legislated in 1953 is much in evidence from the doubled expenditure for 1954, the first year in which they took effect. The 1957 amendments find immediate reflection in the outlay for that year. Finally, continued expenditure growth since 1957 reflects not only rising population but changing provisions for indigent hospitalization.[65]

TABLE 2:10

Grants Under The Municipal Unconditional Grants Act, 1964

		Per-capita grant	
Status	*Population*	*County*	*Territorial district*
Cities or a metropolitan municipality	750,000 and over	$5.50	—
	400,000-749,999	5.00	$4.00
	200,000-399,999	4.50	3.50
	75,000-199,999	4.25	3.25
	below 75,000	4.00	3.00
Towns and villages	10,000 and over	3.75	2.75
	7,000-9,999	3.50	2.50
	5,000-6,999	3.25	2.25
	2,000-4,999	3.10	2.10
	below 2,000	3.00	2.00
Townships	20,000 and over	3.75	2.75
	15,000-19,999	3.50	2.50
	10,000-14,999	3.35	2.15
	5,000-9,999	3.25	2.25
	2,000-4,999	3.15	2.15
	below 2,000	3.00	2.00

Source: Department of Municipal Affairs.

But while unconditional dollar totals may show a steady rise, it is still fair to say that Ontario policy toward this form of aid is shot through with ambiguity. The tendency has been to complicate unconditional grants with what are essentially conditions—the reduction of the total tax burden (1937 to 1948), the subsidizing of social services (1954 to 1963), the reduction of taxes on residential and farm property (1957 to the present) and the provisions for indigent hospitalization

[65]These provisions have been liberalized annually, beginning in 1961 as 40 per cent of the average municipal costs in 1955, 1956 and 1957, and emerging in 1963 as 80 per cent of the previous year's liability.

(since 1961). As a result, unconditional grants in Ontario simply are not unconditional in the strict sense of the word.

No discussion of the development of provincial-municipal finance would be complete without at least a passing glance at provincial payments in lieu of taxes. If only because Ontario has bestowed upon such payments the grandiose legislative title of "municipal tax assistance", they deserve mention even though, as will be pointed out shortly, they are not deemed appropriate for analysis in this study.

TABLE 2:11

Expenditures Under The Municipal Unconditional Grants Act and Related Acts, 1937–1962

YEAR	
1937	$ 2,920,963
1938	2,941,477
1939	4,448,630
1940	2,971,867
1941	2,988,908
1942	3,014,838
1943	3,063,907
1944	6,128,151
1945	3,105,346
1946	3,169,466
1947	3,279,397
1948	3,445,031
1949	3,263,288
1950	3,607,000
1951	3,992,818
1952	4,710,034
1953	5,281,923
1954	11,638,156
1955	12,396,066
1956	12,702,169
1957	20,669,766
1958	20,961,813
1959	23,995,953
1960	24,979,194
1961	25,508,787
1962	25,760,566

Source: Ontario, *Public Accounts.*

The tax-exempt status of provincial property is enshrined in the British North America Act in the section that states: "No Lands or Property belonging to Canada or any Province shall be liable to Taxation."[66] While still sacrosanct in theory, this principle has slowly eroded in practice for two reasons: first, government property, like any other kind of property, requires municipal services; second, government, especially twentieth-century government, inevitably branches out into undertakings that are virtually indistinguishable from those of private business. Naturally, municipal arguments directed against tax exemption have been strongest when they have combined both points. Accordingly provincially owned enterprises such as hydro-electric utilities and liquor outlets have been most vulnerable and chronologically among the first provincial bodies to make payments in lieu of taxes.

[66]B.N.A. Act, 1867, s. 125.

In Ontario, the Hydro-Electric Power Commission first made payments-in-lieu in 1917. Its lands were subjected to both the municipal and school mill rates at actual value as were, after 1925, both lands and buildings used for the retailing of electrical supplies. (The latter were also assessed for business tax purposes).[67] In the mid 1930's the Liquor Control Board became liable for business taxes on its rented property. But not until 1952 did the Province adopt a general line of policy on payments-in-lieu. In that year the Municipal Tax Assistance Act authorized payments on the municipal (but not the school) tax liability and also, where applicable, on the business tax liability of certain provincial and Crown agency property.[68] Much provincial property remains exempt, including legislative and most executive offices, provincial parks and forests, highways and educational institutions.

On the other hand most Crown agencies make payments that include, for such agencies as the Liquor Control Board and the Ontario Savings Bank, a remittance in lieu of business taxes. The Hydro-Electric Commission, always a somewhat special case, is exempt from the payment provisions of the Municipal Tax Assistance Act and is governed instead by the stipulations of the Power Commission Act of 1952.[69] As amended to the present, this statute provides for Hydro payments on both municipal and school taxes for all land, for executive and administrative offices and for buildings housing transformers and generators. Hydro also pays business taxes on 60 per cent of assessed property values. Some of the Hydro property is assessed on a statutory basis. In general, then, present Ontario payments-in-lieu are liberal by comparison to the pre-1952 era. But Ontario practice still suffers when contrasted to federal policy, whether on the part of the federal government itself or of its Crown agencies.

Outside the domain of government property, there exists a special category of provincial payments-in-lieu applicable to mining municipalities. These payments stem from the difficulties inherent in assessing mine property for municipal tax purposes. Beginning in 1908, municipalities received revenue from the taxation of mining profits, in return for which mineral wealth was exempt from assessment. This practice was brought to an end in 1952, and since that year the Province has made direct payments under complicated formulas to municipalities designated by the Minister of Municipal Affairs as "mining municipalities". These payments are in lieu of the property tax revenue that the municipalities still forgo because of the continuing exemption of mineral wealth from assessment.

While all payments in lieu of taxes are intergovernmental financial transactions, it will be apparent upon casual reflection that a study of provincial-local grants is not the proper place in which to analyse them. Payments-in-lieu constitute an attempt to rectify the eroding effect of exemptions on the tax base. Accordingly, they are more properly subject to treatment in studies of the base on which taxes are levied, and should be considered in the light of principles applicable to taxation generally. Other than to note pointedly that to refer to payments-in-lieu as

[67]K. G. Crawford, *Canadian Municipal Government*, p. 296.
[68]S.O. 1952, c. 66.
[69]S.O. 1952, c. 77; also S.O. 1959, c. 73 and S.O. 1960-61, c. 78.

"grants"-in-lieu involves a misnomer all too frequently perpetrated, this study will refrain from analysing them, acknowledging their existence only in the occasional statistical compilation.

A Note on the Development of Provincial-Municipal Finance

The historical development of provincial grants that this chapter has endeavoured to trace is complex and multi-dimensional. But if the maze of details and proliferation of figures is temporarily put aside, provincial-municipal finance, like any other long-standing governmental phenomenon, can be seen as a microcosm of national history. That road grants should have come about when they did was simply a by-product of the automotive revolution. That the same grants should later take on an urban and metropolitan hue followed naturally from the combination of social, economic and technological factors that is making megalopolis the natural habitat of modern man. Intergovernmental relations in the welfare field, for their part, have ebbed and flowed in the wake of growing industrial complexity and in response to the changing dictates of social philosophy. For the rest, such grants as those for physical amenities and the natural environment reflect a society of more positive government, greater cultural maturity and more acute concern for the preservation of now intensively exploited space.

In this sense, provincial-municipal finance can perhaps be seen as a reasonable reflection of national growth and not as a dark continent fit solely for exploration by madmen. That the particular response to various social challenges should have been in the form of grants rather than, let us say, wholesale re-allocation of jurisdictions should also be no mystery. Time and again grants, rather than other policy tools, were chosen not only because they fit a situation in which more than one level of government exists but also because they constituted an alternative to an intergovernmental re-allocation of functions. One of the principal textbook reasons for making a grant is that a halfway house in the division of governmental power is thereby achieved.

From an Olympian perspective, then, provincial-municipal finance can almost be said to bask in sweetness and light. If nothing else, ascent to this rarefied atmosphere provides a welcome interlude, the memory of which may yield solace as we now return to earth. For much as the subject at hand may momentarily glow with reasonableness, its vexing complexity must engulf us once more. Grant programs may well have evolved in response to the major social challenges of our time. But they also have been allowed to accumulate in disorderly fashion, without regard to over-all municipal finance, without regard to economic and administrative criteria, without regard even to how many and what types of grants already exist. It is to this last deficiency that the next chapter will address itself as it attempts to map the territory of provincial-municipal finance in 1962–63.

Appendix to Chapter 2

For reasons given in the Preface, the classification and statistical analysis of provincial grants presented in this study must necessarily relate to the situation in effect in 1962–63, and slightly earlier in some instances. This Appendix attempts to cope with the passage of time only by outlining the highlights in grant development necessary to bring the historical material in Chapter 2 up to the year 1967. Grant changes will be discussed under the same headings used in the chapter proper.

ROADS

The major development in road grants since 1963 has yielded equalization provisions affecting two specific types of municipalities, townships and counties.

As noted in Chapter 2, when townships were made eligible in 1930 for a basic road grant equal to 40 per cent of approved expenditure, the legislation authorized subsidies that could in fact run as high as 80 per cent at the discretion of the Minister of Highways. This discretionary provision remained in effect when the basic township grant, along with those for other municipal roads, was raised to 50 per cent in 1947.

What in fact determined whether any individual township would receive more than 50 per cent during the post-war period was never reduced to a formula, and indeed was only gradually hedged about by such vague legislative criteria as need and the economic condition of the township. Finally, as a result of intensive studies carried out in the Department of Highways in 1962 and 1963, there emerged an equalization formula which has since had the effect of making a township's actual rate of grant the result of calculation rather than discretion. This formula involves two basic figures. The first is designed to reflect the average annual cost of achieving desired township road standards—$600 per mile. The second is a mill rate which, applied to a township's provincially equalized taxable assessment, denotes a standard local fiscal effort. The rate for townships in counties is 10 mills; that for townships not in counties and therefore not contributing to county roads is 16. The percentage of supplementary assistance above the basic grant of 50 per cent is determined by taking the sum of the basic grant per mile of township road plus the yield per mile of the 10- or 16-mill levy as a percentage of $600. The over-all ceiling of the total provincial contribution remains 80 per cent of costs.

In 1966, counties became the second class of municipality to be made eligible for road grants based on an equalization formula. Under this formula, an attempt is made to define county needs over five-year periods with reference to provincially acceptable county road standards. Account is taken of the construction, improvement, maintenance and administrative costs of meeting these defined needs. The county receives supplementary assistance from the Province geared to the difference between these costs (defined needs) and the sum of the county road levy plus the regular grant for county roads, bridges and culverts. The actual formula requires a minimum county levy of 6 mills on provincially equalized taxable assessment,

and is designed to encourage a county to increase its levy above 6 mills to the point where the moneys locally raised, together with total provincial assistance, equal the defined needs. County levies above this point are discouraged in that the Province reduces supplementary assistance in direct proportion to the excess. The new system offers an attempt to integrate the measured needs of the county road system with the ability and willingness of the county to finance these needs. Under the formula, twenty-eight of the thirty-seven Ontario counties are now eligible for provincial payments over and above their entitlement from regular county road grants, whose rate remains 50 per cent.

Other than for the two highly significant departures just noted, the only noteworthy change in the Ontario road grant system came in 1964 when legislation authorized the Minister of Highways to enter into agreement with any municipality for the construction, maintenance and operation of controlled-access urban expressways and freeways. No rate of provincial subsidy is specified by the statute.

WELFARE

Until 1967, there were no changes in provincial welfare grants. In that year, and true to the historical pattern noted in Chapter 2, certain revisions were in the offing as a result of federal initiative. The advent of the Canada Assistance Plan made available more generous federal grant coverage provided that a Province agreed to gear its welfare contributions to the need rather than the means of recipients. The Plan has a greater impact on such wholly provincial programs as mothers' allowances than on provincial-municipal ones. But in its wake the Province raised its rate of subsidy to Children's Aid Societies from 40 per cent to 60 per cent. Two years earlier, and purely as a matter of provincial policy, the Province had undertaken to pay the entire cost of Society services to unwed mothers. This has remained in effect.

MISCELLANEOUS

Among the many miscellaneous grant categories, only health underwent major change. In 1967 the Province abolished the health unit grant formula that had been in effect since 1940. This formula, which called for differential grant rates related to population and city status, was replaced by a flat 50 per cent subsidy on behalf of the health expenditures of all municipalities in health units. For the first time, municipalities not in health units became eligible for a grant set at 25 per cent of their expenditures. To receive this grant, municipalities must satisfy the Department of Health that they provide full-time health services as prescribed in the Regulations. The grant of necessity will apply only to urban municipalities large enough to employ qualified full-time health personnel.

The basic motive of the Province in creating the original health unit grants—to achieve boundary reform through fiscal incentives—remains in evidence. The Minister of Health announced in 1967 that, beginning in 1968, his department would launch a policy of encouraging the establishment of still larger health districts, and make available to all municipalities joining a district a grant of 75 per cent of their health expenditure.

Outside the health category, only library grants have been subject to revision. Here continuous review seems to have yielded changes whose net effect has been to increase provincial outlays while making library grants mirror some of the more complex administrative provisions of school grants.

UNCONDITIONAL GRANTS

In 1967, an amendment to The Municipal Unconditional Grants Act raised the per-capita amount payable to all municipalities by $1.50. The revised grant schedule is shown in Table 2:12.

TABLE 2:12

Grants Under The Municipal Unconditional Grants Act, 1967

		Per-capita grant	
Status	*Population*	*County*	*Territorial district*
Cities or a metropolitan municipality	750,000 and over	$7.00	—
	400,000-749,999	6.50	$5.50
	200,000-399,999	6.00	5.00
	75,000-199,999	5.75	4.75
	below 75,000	5.50	4.50
Towns and villages	10,000 and over	5.25	4.25
	7,000-9,999	5.00	4.00
	5,000-6,999	4.75	3.75
	2,000-4,999	4.60	3.60
	below 2,000	4.50	3.50
Townships	20,000 and over	5.25	4.25
	15,000-19,999	5.00	4.00
	10,000-14,999	4.85	3.85
	5,000-9,999	4.75	3.75
	2,000-4,999	4.60	3.60
	below 2,000	4.50	3.50

Source: Department of Municipal Affairs.

CHAPTER 3

Provincial-Municipal Finance: Mapping the Territory

THIS chapter is an exercise in description. Building on the historical developments just outlined, its purpose is to lay before the reader a map of provincial-municipal finance in the early 1960's. The chapter will begin by sketching a broad picture of provincial and municipal activity in Ontario. It will proceed to a simple statistical summary of grant expenditures and go on to a detailed classification of provincial grant programs. This classification will then be subjected to a general analysis the purpose of which will be to discover whatever directions may be discernible in Ontario grant policy.

Provincial and Municipal Activity

Grants are but a single phase of provincial and municipal operations, a phase whereby the former shares directly in the services provided by the latter. Were grants to be abolished tomorrow, provincial and municipal activities would still be closely interrelated. Functions performed and courses of action pursued at one level of government are bound to affect the other, especially when both levels share a single constitutional mandate in an age of positive public policies. Accordingly it seems appropriate at this juncture to make a brief excursion into the total realm of provincial and local affairs through a survey of the division of labour within and between the two levels of government. The spending figures under discussion will be those of the Dominion Bureau of Statistics, which alone compiles provincial and municipal expenditures on a basis that makes meaningful comparisons possible.[1]

Table 3:1 presents a summary of provincial and municipal spending in 1960-61 by function, relating each expenditure category to the total amount spent by each of the two levels of government. These figures are net of intergovernmental transfers—i.e., provincial grants to municipalities are credited to provincial rather than municipal spending and provincial expenditures exclude moneys received from the federal government on behalf of the services shown.

Running down the figures in the Table, the reader will note first that education (35.1 per cent) is by far the most important item of local expenditure, followed by transportation (20.3 per cent). At the provincial level, on the other hand, education (25.6 per cent) shares the limelight with transportation (26.6 per cent).[2] Because of the major provincial role in hospital insurance, health looms very large

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[1]The provincial spending figures published in the Ontario Public Accounts are unfortunately not fully comparable with the municipal expenditure reports of the Ontario Department of Municipal Affairs.

[2]As the 1960's progressed, education passed transportation as the major item of provincial expenditure, completing a long run from behind (in 1956-57, 36.8 per cent of the provincial budget had been for transportation and 20.7 per cent for education).

TABLE 3:1

Net General Expenditure by Provincial and Municipal Governments, Ontario, 1960–61

	Provincial		Municipal	
	(dollar amounts in thousands)			
General government	$ 32,049	3.5%	$ 60,199	6.5%
Protection to persons and property	46,912	5.2	102,289	11.0
Health	199,283	22.0	31,209	3.4
Social welfare	50,175	5.6	25,363	2.7
Education	231,994	25.6	326,331	35.1
Transportation	240,737	26.6	188,433	20.3
Debt charges	45,985	5.1	36,533	3.9
Natural resources	36,180	4.0	—	—
Sanitation and waste removal	—	—	84,993	9.1
Contributions to gov't. enterprise	511	0.1	10,953	1.2
Other	20,994	2.3	63,252	6.8
TOTAL	$904,820	100.0%	$929,555	100.0%

Source: Dominion Bureau of Statistics, various publications.

in the provincial budget (22.0 per cent), but is negligible at the local level (3.4 per cent). As might be expected because of the multiplicity of units, general government outlays are relatively higher on the local scene (6.5 per cent) than on the provincial (3.5 per cent), and virtually exclusive municipal responsibility for fire-fighting boosts protection to persons and property to much greater prominence at the local level (11.0 per cent) than at the provincial (5.2 per cent). Sanitation and waste removal are exclusively local (9.1 per cent) and natural resources exclusively provincial (4 per cent), although the definition of natural resources here excludes municipal spending on such items as parks and conservation, items which appear under "other". Social welfare constitutes a relatively minor portion of provincial and local expenditure (5.6 per cent and 2.7 per cent), but it should be recalled that the netting out of intergovernmental transfers eliminates the appreciable federal funds that pass through the Ontario Department of Public Welfare. Debt charges are relatively more onerous at the provincial level (5.1 per cent) than at the local (3.9 per cent), while contributions to government enterprise made by municipalities are small (1.2 per cent) and by the Province minuscule (actually 0.06 per cent). Finally, unclassified expenditure ("other") is a heftier entry in the local budget (6.8 per cent) than in the provincial (2.3 per cent) as befits the level of government which, being closest to the people, must provide for residual public services. Summing up, we can say that health, social welfare, transportation, debt charges and natural resources constitute in relative terms a heavier drain on the provincial budget than on the municipal; the reverse is true of all remaining functions.

Having examined the role of the major expenditure items in each of the provincial and local budgets, let us now review what portion of spending of each function accrues to the provincial and local levels. The relevant data are presented in Table 3:2, again for the year 1960-61 and again net of intergovernmental transfers. The spending items that were seen in Table 3:1 to have the greatest relative

TABLE 3:2

Net General Expenditure by Function, Provincial and Municipal Governments, Ontario, 1960–61

	Total	*Provincial*		*Municipal*	
		(dollar amounts in thousands)			
General government	$ 92,248	$ 32,049	34.74%	$ 60,199	65.26%
Protection to persons and property	149,201	46,912	31.44	102,289	68.56
Health	230,492	199,283	86.46	31,209	13.54
Social welfare	75,538	50,175	66.42	25,363	33.58
Education	558,325	231,994	41.55	326,331	58.45
Transportation	429,170	240,737	56.09	188,433	43.91
Debt charges	82,518	45,985	55.73	36,533	44.27
Natural resources	36,180	36,180	100.00	—	—
Sanitation and waste removal	84,993	—	—	84,993	100.00
Contributions to gov't. enterprises	11,464	511	4.46	10,953	95.54
Other	84,246	20,994	24.92	63,252	75.08
TOTAL	$1,834,375	$904,820	49.33%	$929,555	50.67%

Source: Dominion Bureau of Statistics.

importance in the provincial budget are also the ones in which provincial money accounts for over 50 per cent of expenditure. Among the remaining functions, provincial expenditure is appreciable in three: education (41.5 per cent), general government (34.7 per cent) and protection (31.4 per cent). Over-all spending by the provincial and municipal levels is roughly equal (49.3 per cent and 50.7 per cent of the combined totals).[3] This rough balance, however, is struck only because grants to local government have been credited to the provincial account.

There is an air of unreality to a chapter on provincial grants that does not offer statistical tables in which intergovernmental transfers are credited to the receiving government or in which these transfers are shown as a percentage of the receiving government's expenditure. Since the needed data were so difficult to obtain that they required a separate study, the reader must be referred to the Report of the Ontario Committee on Taxation.[4] Bearing in mind the general outline of provincial-local finance that we have been able to salvage, we now turn to statistics on grants proper.

PROVINCIAL GRANTS IN ONTARIO: EXPENDITURES

Table 3:3 summarizes the non-conditional payments made to Ontario municipalities in 1962-63. Accordingly, it records provincial expenditure on payments-in-lieu although, as pointed out in the last chapter, these should not be considered grants. Totalling $37.7 million, non-conditional payments are dominated by the municipal unconditional grant, which at $25.8 million accounts for over two-thirds of the total. Among the payments-in-lieu, that to mining municipalities ($5.6

[3]Preliminary statistics for later years indicate that the slight local government lead has been reversed.

[4]Vol. I, Chapter 4.

TABLE 3:3

Provincial Unconditional Grants and Payments-in-Lieu
1962–63

	Amount of payment	*Percentage of total*
Unconditional Grants		
Municipal unconditional grant	$25,760,566	68.33%
Payments-in-Lieu		
General provincial property		
Taxes (paid through Dept. of Municipal Affairs)	1,786,882	4.74
Local improvement levies (paid through Department of Public Works)	1,539	—
Crown agencies		
Liquor Control Board	377,565	1.00
Ontario Food Terminal	22,806	.06
Ontario Hydro	3,915,374	10.39
Ontario Northland Railroad	102,901	.27
Ontario Stock Yards	71,230	.19
Workmen's Compensation Board	72,839	.19
Mining Municipalities	5,590,941	14.83
TOTAL	$37,702,643	100.00%

Source: Ontario, *Public Accounts, 1962-63*, save for payments-in-lieu on Crown agency property, which are derived from figures supplied by the agencies to the Department of Municipal Affairs.

million) is the most substantial. Payments-in-lieu on Crown agency property, marked by the overwhelming preponderance of the Ontario Hydro, are approximately three times the amount of the payments on general government property.

Non-conditional payments are the essence of simplicity next to their conditional counterparts, whose incredibly lengthy dimension is outlined in Table 3:4. This Table offers a complete compendium of all conditional grant programs in existence as of the year 1962-63, save for school subsidies which are the subject of the last chapter in this study. Three columns of figures appear in the Table. The first shows the amount of the net provincial grant; the second, the effective or gross total of the grant, i.e. the net provincial payment plus the federal contribution, if any; the third, the gross payment for each grant as a percentage of total expenditure. In an attempt to transcend the maze of detail in the Table, the following points are offered in summary fashion.

1. As of 1962-63, 89 grants exist, either by statute, by order-in-council, by regulation or by simple declaration of policy. Since the last-mentioned source of authority may appear unusual, we can cite by way of example grant No. 43 (fox bounties) which is made as the result of a 1958 policy statement by Prime Minister Leslie Frost.

2. Twelve departments of government and two agencies administer the 89 grants. In descending order they are: Public Welfare (30), Health (9), Lands and Forests (8), Municipal Affairs (8), Attorney General (7), Highways (7),

Agriculture (6), Public Works (4), Travel and Publicity (4), Education (2), Economics and Development (1), Reform Institutions (1), Ontario Hydro (1), and Liquor Control Board (1). As mentioned in the last chapter, the L.C.B.O. subsidy can be dubbed a conditional grant only in that payment hinges on the existence of an enforcement agreement between the municipality and the Board. This subsidy can more accurately be described as a shared revenue item.

3. Of the 89 grants, only 9 incorporate federal payments, totalling $25.4 million in the gross disbursement. The 9 grants in question are (with classification numbers in parenthesis) health units (#19), venereal disease clinics (#24), conservation authorities (#35), winter works (#48), homes for the aged (#62 and #63), general welfare assistance (#69), rehabilitation (#75) and transportation allowances for welfare recipients (#78). Three of these grant programs (#24, #75 and #78) are minute.

4. Precisely 28 grants reveal no provincial disbursement in 1962-63. In any given instance this could be for one or more of the following reasons. (a) Special circumstances necessary to activate the grant did not materialize (e.g. #42, disaster relief). (b) Provincial policy is not to make payments although the grant remains in the statute books (e.g. #50, welfare units). (c) The amount paid was included under another grant heading (this may be true of a number of the separate grants of the Department of Public Welfare, expenditure on which may be included under General Welfare Assistance). (d) Payment was made but was recorded neither in the public accounts nor in the Grants Register of the Department of Municipal Affairs.

5. Of the 61 grants on which provincial payments can be traced, no fewer than 43 involve gross disbursements that individually bear a relationship to total grant expenditure of less than 0.5 per cent. Of the remaining 18 grants, 4 involved expenditure between 0.5 per cent and 1 per cent of the total, 6 were over 1 per cent but under 5 per cent, and 8 were 5 per cent and over. These last eight grants were the five combined road grants numbered 28 through 32,[5] development road subsidies, winter works and general welfare assistance. The road grants are exclusively provincial while the other two are grants in which federal money plays the dominant role. For the reader's convenience, the fourteen grant programs that involve gross disbursements above 1 per cent of the total are listed in Table 3:5 with the amount of federal contribution, if any, and the percentage the federal contribution bears to the gross program disbursement.

6. Harking back to Tables 3:1 and 3:2 and their respective breakdowns of provincial and municipal expenditure by function, a survey of provincial grant disbursements creates the following impressions. First, the social welfare function is markedly one where a heavy portion of provincial expenditure is transferred for ultimate disbursement at the municipal level. Mothers' allowances and old age

[5]The reader will note that separate figures are not shown for these grants. A related but different breakdown appears in Tables 2:3, 2:4 and 2:5. This breakdown indicates the allocation of total expenditure among municipalities other than the Municipality of Metropolitan Toronto.

assistance are the only major programs administered directly by the Province; for the rest, municipal administration is the rule. And where federal welfare funds are concerned, the Province, save for old age assistance, in effect holds the position of an intermediate disbursing agent. Next, roads stand out as a field in which provincial grants in relation to total provincial spending on that function are important, but by no means as great as in welfare. Finally, the remaining functions of government that involve both provincial and municipal expenditure are not functions in which transfers of funds play an important role.

TABLE 3:4

Conditional Grants in Ontario

1962–63

Grant description	*Net provincial payment*	*Gross payment*	*Gross payment as a percentage of total conditional grants*
Department of Agriculture			
1. Community centres	$ 463,973	$463,973	.31%
2. Plant diseases control	—	—	—
3. Soil improvement	13,975	13,975	.01
4. Warble fly control	75,015	75,015	.05
5. Weed control	54,309	54,309	.04
6. Weed control equipment	—	—	—
	607,272	607,272	.41
Department of Attorney General			
7. Administration of justice in counties	48,946	48,946	.03
8. Emergency Measures Organization	233,344	233,344	.16
9. Judges plans	12,439	12,439	.01
10. Juvenile and Family Court	—	—	—
11. Policing provincial areas	—	—	—
12. Supplementing income of Registrar of Deeds	—	—	—
13. Coroners inquest	—	—	—
	294,729	294,729	.20
Department of Economics and Development			
14. Building development studies	3,000	3,000	.00
	3,000	3,000	.00
Department of Education			
15. Libraries	2,167,697	2,167,697	1.46
16. Recreation programs	621,114	621,114	.42
	2,788,811	2,788,811	1.88
Department of Health			
17. Diabetic insulin	—	—	—
18. Diagnostic laboratories	112,645	112,645	.08
19. Health units	1,422,904	1,535,388	1.03
20. Newborn infant accommodation	—	—	—
21. Nursing inspection (Schools)	24,559	24,559	.02
22. Physiotherapy for polio	—	—	—
23. School dental service	31,997	31,997	.02
24. Venereal disease clinics	15,028	30,057	.02
25. Venereal disease—physicians' accounts	2,422*	4,844*	.00
	1,609,555	1,739,490	1.17

TABLE 3:4 (*cont.*)

Grant description	*Net provincial payment*	*Gross payment*	*Gross payment as a percentage of total conditional grants*
Department of Highways			
26. Development roads..................	$ 7,717,544	$ 7,717,544	5.20
27. Need studies......................	—	—	—
28. Connecting links, King's highways 29. Roads, bridges, culverts 30. Sidewalks 31. Suburban roads 32. Township road superintendent	76,230,662	76,230,662	51.39
	83,948,206	83,948,206	56.59
Department of Lands and Forests			
33. Access roads to provincial parks......	246,518	246,518	.17%
34. Acquiring land for forestry purposes...	139,728	139,728	.09
35. Conservation authorities............	3,258,589	4,397,349	2.96
36. Fire in fire districts.................	—	—	—
37. Fire in fire districts—excessive costs...	—	—	—
38. Fires on Crown land................	—	—	—
39. Municipal parks assistance...........	107,712	107,712	.07
40. Wolf bounties......................	44,664	44,664	.03
	3,797,211	4,935,971	3.33
Department of Municipal Affairs			
41. County assessor's office and salary....	57,000	57,000	.04
42. Disaster relief......................	—	—	—
43. Fox bounties......................	10,328	10,328	.01
44. Indigent hospitalization (incl. with unconditional grant figure)	—	—	—
45. Pension, workmen's comp.-firemen....	188,168	188,168	.13
46. Pension, workmen's comp.-policemen..	270,326	270,326	.18
47. Redevelopment in redevelopment area.	1,207,273	1,207,273	.81
48. Winter works......................	2,665,377	8,185,973	5.52
49. Agricultural drainage works (See Dept. of Public Works)........	—	—	—
	4,398,472	9,919,068	6.69
Department of Public Welfare			
50. Administration-welfare units..........	—	—	—
51. Children's Aid Societies-capital grants.	25,482	25,482	.02
52. Children's Aid Societies protection service..........................	562,738	562,738	.38
53. Children's Aid Societies-wards........	4,260,556	4,260,556	2.87
54. Children's Aid Societies-wards from U.T............................	444,478	444,478	.30
55. Children's Aid Societies-Extra maintenance U.T.................	31,000	31,000	.00
56. Additional aid to certain municipalities.	107,171	107,171	.07
57. Steno service in U.T................	20,440	20,440	.01
58. Day nurseries......................	264,582	264,582	.18
59. Elderly persons' housing.............	132,867	132,867	.09
60. Homes for aged-building, acquiring or altering.........................	2,730,044	2,730,044	1.84
61. Homes for aged-furnishings..........	—	—	—
62. Homes for aged-maintenance.........	1,811,819†	5,001,920	3.37
63. Homes for aged-maintaining occupants from U.T.......................	3,631†	114,308	.08
64. Homes for aged-special home care.....	6,283	6,283	.00
65. Homemaker and nursing services......	231,526	231,526	.16
66. G.W.A.—burial of indigents..........	4,564†	10,467	.01
67. —dependent foster children....	—	—	—
68. —emergency dental service....	4,645†	10,657	.01

TABLE 3:4 (*cont.*)

Grant description	*Net provincial payment*	*Gross payment*	*Gross payment as a percentage of total conditional grants*
Department of Public Welfare—Cont.			
69. G.W.A.	$ 11,875,043	$ 27,235,770	18.36
70. —incapacitation allowance	—	—	—
71. —medical services	—	—	—
72. —nursing home care	—	—	—
73. —persons in hostels	—	—	—
74. —post-sanatorium allowance	—	—	—
75. —rehabilitation service	9,693†	22,231	.02
76. —supplemental aid	—	—	—
77. —special articles	—	—	—
78. —transportation allowance	7,187†	16,485	.01
79. —transportation allowance U.T.	—	—	—
	22,533,749	41,229,005	27.79
Department of Public Works			
80. Aid—remedial works	1,541	1,541	.00%
81. Jail construction	—	—	—
82. Municipal drainage	1,253	1,253	.00
49. Agricultural drainage (provincial aid to drainage)	749,940	749,940	.51
	752,734	752,734	.51
Department of Reform Institutions			
83. Maintenance of jails	—	—	—
Department of Travel and Publicity			
84. Historical museums—salaries 85. Historical museums—other maint. 86. Establishing historical museums—salaries 87. Establishing historical museums—other maintenance	37,995	37,995	.03
	37,995	37,995	.03
Liquor Control Board			
88. Enforcing Liquor Acts	1,163,477**	1,163,477	.78
	1,163,477	1,163,477	.78
Ontario Hydro-Electric			
89. Rural hydro distribution	921,284**	921,284	.62
	921,284	921,284	.62
TOTAL	$122,856,495	$148,341,042	100.00%

All figures were obtained from Ontario, *Public Accounts, 1963*, unless otherwise indicated.

A blank indicates that no amount was shown for the type of grant described. Although it is likely, in such cases, that payments were not made, it is possible that some payments may be hidden under another heading.

*Treatment of patients and payments to municipalities—since health units and municipalities received roughly half of the total payment they are attributed with half provincial payment and half total payment.

†Figures have been prorated.

U.T.—Unorganized Territory.

G.W.A.—General Welfare Assistance.

**Taken from 1962 Grants Register, Department of Municipal Affairs.

CONDITIONAL GRANTS IN ONTARIO: A CLASSIFICATION

The historical development of grants sketched in the last chapter revealed in passing that there exist obvious and profound differences among grant programs. Some programs reimburse municipalities according to fixed or variable percentages of expenditure, others provide discretionary funds by agreement with the Minister, yet others exist only for certain classes of municipality, and so on. This section will attempt a detailed classification of all 89 grants whose fiscal dimensions have just been reviewed.

TABLE 3:5

Provincial Grants Involving Major Expenditure with Federal Contribution (if any), 1962–63

Rank	*Number and description*	*Gross payment*	*Federal contribution*	*Percentage federal contribution is of gross payment*
1.	28. Connecting links, King's highways 29. Roads, bridges, culverts 30. Sidewalks 31. Suburban roads 32. Township road superintendent	$76,230,662	—	—
2.	69. General welfare assistance	27,235,770	$15,360,277	56.40%
3.	48. Winter works	8,185,973	5,520,566	67.44
4.	27. Development roads	7,717,544	—	—
5.	62. Homes for aged—maintenance	5,001,920	3,190,101	63.78
6.	35. Conservation authorities	4,397,349	1,148,760	26.12
7.	53. Children's Aid Societies —wards	4,260,556	—	—
8.	60. Homes for aged—building, acquiring or altering	2,730,044	—	—
9.	15. Libraries	2,167,697	—	—
10.	19. Health units	1,535,388	112,484	7.33

Classification, to a decided extent, is an exercise in self-deception. This is because classification is by nature arbitrary, and never more so than when, as in this instance, it is applied to 89 grant programs whose number is itself the result of classification schemes found in the Public Accounts and other government sources. The reader is asked, therefore, to bring with him an abundance of good will and a modicum of suspicion as he wrestles with the material that follows.

There exist in the literature on local government several heroic attempts at grant classification.[6] Nothing will be said of them here save that they have made a useful contribution to the author's thinking, the bitter fruits of which appear in Table 3:6. The eight broad headings listed at the top of the Table were formulated

[6]See, for example, Herman Finer, *English Local Government*, 4th edition (London, 1950); D. N. Chester, *Central and Local Government* (London, 1951); *Local Government Finances in Saskatchewan* (Saskatchewan Local Government Continuing Committee, 1961).

by asking the following questions. (1) Is the conditional grant for capital or current expenditure? (2) Is the acceptance of the grant a matter for local discretion or is the grant mandatory? (3) Does the Province make the grant as a matter of course, or can ministerial (or Cabinet) action affect either the making or the size of the grant? (4) Is the grant paid in reimbursement or in advance of local expenditure? (5) Is the grant based on any test of local need as reflected, for example, in the amount of expenditure which the municipality must undertake? (6) Is the grant subject to fiscal considerations or at least to what the legislation defines as a fiscal consideration (e.g. municipal status, or population or assessment)? (7) Are significant limitations attached to the grant such as a ceiling on expenditure? (8) What classes of local government (e.g. city, county) are eligible for a grant?

Immediately below the eight headings that correspond to these questions are columns that provide at least partial answers. The columns that appear under "Purpose", "Local discretion", and "Manner of payment" are self-explanatory. The column under "Ministerial discretion" headed by the word "Part" means that a grant for which a check mark appears is subject to partial ministerial discretion. The two most common examples of partial ministerial discretion are: (a) when the level of aid provided by the grant is fixed by legislation but the actual making of the grant depends on ministerial approval; (b) when ministerial approval is required to set the actual level of aid to which a municipality is entitled. The community centres grant (#1) demonstrates the first possibility. Here the basis of assistance is clearly laid out: 25 per cent of cost to a stated maximum. But the grant itself depends on prior municipal application and departmental assent. By contrast, the road, bridge and culvert grant *vis-à-vis* townships (#29) illustrates a situation where provincial sharing of 80 per cent rather than 50 per cent of cost is a matter for ministerial discretion.

Turning now to the column headed by the word "Need", the reader will note two abbreviations, "Exp." and "C.L." where a grant program takes this factor into account. "Exp." means that a municipality's need for a service is measured by the expenditure that the service requires. This very common provision characterizes all grants that involve provincial sharing in a percentage of program costs. "C.L.", on the other hand, means that provincial aid is based on municipal case load, i.e. on the cost of providing a service to the individual units demanding the service. Thus venereal disease clinics, under grant #24, receive a flat sum ($1.50, and under certain circumstances $2.25) for each patient-visit.

The "Fiscal" column is designed to take account of any provision attached to a grant program that is somehow designed to vary the level of aid in accordance with various special factors. "Status" (Stat.) means that the grant varies with municipal status—e.g., the road, bridge and culvert grants (#29), which are set at 33⅓ per cent of city expenditure but at 50 per cent to 80 per cent of township expenditure. "Population" (Pop.) means that the grant varies with municipal population as in the case of the fire and police grants (#45 and #46) where provincial contributions are scaled between 10 per cent and 25 per cent of cost on a schedule in which the percentage varies inversely with population. "Assessment" (Ass.) appears only for the public libraries grants (#15) which vary

inversely with equalized taxable assessment per capita. A final designation, "Unemployment" (Unempl.), is reserved for the general welfare assistance grant (#69). This grant is normally a flat 80 per cent of municipal outlays for the purpose, save that if 6 per cent of the population has been on relief for the previous five months, the Province pays 90 per cent of welfare costs for persons in excess of 5 per cent of the population.

As to limitations, four sub-categories appear. A grant receiving a check in the "Open" column is one on which no total expenditure ceiling exists; on the other hand a grant is "Closed" if such a ceiling is imposed. The notation "Individual" indicates that, while the grant may be open as to total expenditure, it is none the less subject to a maximum contribution on a particular unit of service. Thus general welfare assistance (#69) stipulates maximum payments that can be made to any individual recipient; the homemaker and nursing service grant (#65) reimburses 50 per cent of municipal liability to a maximum of $4 per day per recipient. By contrast to the "Individual" limitation, the "Project" limitation places a maximum ceiling on aid contributed to any general undertaking as in the case of community centres (#1) where the ceiling on grants of 25 per cent of cost is $5,000 for most projects and $10,000 if an indoor swimming pool or skating arena forms part of the project.

Finally, the grant eligibility column indicates the classes of local government to which any particular grant is directed. The designations are as follows:

L.—any city, town, village or township
C.—counties
Ci.—cities
B.—boards (e.g. health units, Children's Aid Societies, conservation authorities and the like).
Ts.—townships
T.—towns
S.T.—separated towns
Sp.—a special category, such as a township in unorganized territory, or an improvement district.

The most casual glance at Table 3:6 will reveal that provisions whose effect is to limit grant eligibility to certain classes of local government are a common feature of Ontario grant programs.

We are now in a position to attempt to tabulate an inventory of the grant provisions shown in Table 3:6. Let it be noted at the outset, however, that this Table has increased the number of programs itemized from 89 to 99. Thus is the arbitrary nature of classification made abundantly apparent. The increase in number is brought about by two programs, those for weed control and conservation authorities, whose multiple provisions forced separate listings.

Out of what are now 99 programs, we confront the following distribution of provisions. As to capital or current spending, 67 grants are for current purposes, 21 for capital and 11 for both. Some major programs fall into the last-mentioned category, as witness aid for roads, bridges and culverts which is extended uniformly to construction and maintenance costs. Then a majority of grants, 53, are in fields where municipal activity is up to local discretion. On the other hand, 39 involve

TABLE 3:6

Conditional Grants in Ontario: A Classification

	Purpose		Local discretion		Ministerial discretion			Manner of payment		Need	Fiscal	Limitations				Eligible
	Capital	Cur.	Yes	No	Yes	No	Part	Adv.	Reimb.			Open	Closed	Individual	Project	
Dept. of Agriculture																
1. Community centres	X		X				X		X	Exp.					X	L.,C.,B.
2. Plant diseases control		X	X				X		X	Exp.			X			L.,C.
3. Soil improvement	X		X		X				X	Exp.					X	C.
4. Warble fly control		X	X				X		X	Exp.			X			Ts.
5. Weed control in counties		X		X			X		X	Exp.		X				C.
in townships in districts		X		X			X		X	Exp.					X	Sp.
6. Weed control equipment		X	X		X				X	Exp.					X	Sp.
Dept. of Attorney General																
7. Administration of justice in counties		X		X			X		X	Exp.		X				C., Sp.
8. Emergency Measures Organization	X	X	X				X		X	Exp.		X				C., Sp.
9. Judges plans		X	X		X				X	Exp.		X				L.
10. Juvenile and Family Court		X		X	X				X	Exp.		X				Sp.
11. Policing provincial areas		X	X		X			X				X				L.
12. Supplementing income Registrar of Deeds		X		X			X		X	Exp.		X				C., Sp.
13. Coroner's inquest		X		X		X			X	Exp.		X				C.

Dept. of Economics and Development																
14. Building development studies		X	X		X			X				X				C., L., B.
Dept. of Education																
15. Libraries	X	X	X		X				X	Exp.	Ass.	X	X	X		B.
16. Recreation programs		X	X		X				X	Exp.					X	C., L.
Dept. of Health																
17. Diabetic Insulin		X		X	X			X		Exp.		X				C., Ci., S. T.
18. Diagnostic laboratories		X	X		X				X	C.L.		X				B.
19. Health units		X	X		X				X	Exp.	Stat., Pop.	X				B.
20. Newborn infant accommodation	X		X				X		X	Exp.					X	B.
21. Nursing inspection (schools)		X	X		X				X	Exp.		X				C.
22. Physiotherapy for polio		X	X		X				X	C.L.		X				B.
23. School dental service	X	X	X				X		X	Exp.		X				B.
24. Venereal disease clinics		X		X			X	X		C.L.		X				B.
25. Venereal disease—physicians' accounts		X		X			X		X	C.L.		X				L.
Dept. of Highways																
26. Connecting links, King's highway	X		X				X		X	Exp.	Stat., Pop.	X				C., L.
27. Development roads	X	X	X	X	X			X	X	Exp.		X				C., Ts., Sp.
28. Need study		X	X				X		X	Exp.		X				C.,T.,V.

TABLE 3:6 (cont.)

	Purpose		Local discretion		Ministerial discretion			Manner of payment		Need	Fiscal	Limitations				Eligible
	Capital	Cur.	Yes	No	Yes	No	Part	Adv.	Reimb.			Open	Closed	Individual	Project	
29. Roads, bridges, culverts	X	X	X	X			X	X	X	Exp.	Stat.	X				C., L.
30. Sidewalks	X		X				X		X	Exp.		X				Ts.
31. Suburban roads	X	X	X	X			X		X	Exp.		X				C.
32. Township road superintendent		X		X	X				X	Exp.		X				Ts.
Dept. of Lands and Forests																
33. Access roads to provincial parks	X	X	X	X	X				X	Exp.		X				C.,L.,Sp.
34. Acquiring land for forestry purposes	X		X		X				X	Exp.		X				C.,L.,B.
35. Conservation authorities A. Primary survey		X	X		X				X	Exp.					X	B.
B. Engineering study		X	X		X				X	Exp.					X	B.
C. Projects	X		X		X				X	Exp.					X	B.
D. Conservation area development	X		X		X				X	Exp.					X	B.
E. Recreation areas and park development	X		X		X				X	Exp.					X	B.
F. Old mill dams	X		X		X				X	Exp.					X	B.
G. River bank erosion control	X	X	X		X				X	Exp.					X	B.

H. General administration		X	X		X				X	Exp.					X	B.
I. Promotion, advertising		X	X		X				X	Exp.					X	B.
J. Vehicles and equipment	X		X		X				X	Exp.					X	B.
36. Fire in fire districts		X		X	X				X	Exp.		X				L.
37. Fire in fire districts—excessive costs		X		X	X				X	Exp.		X				L.
38. Fires on Crown land in fire districts		X		X		X			X	Exp.		X				L.
39. Municipal parks assistance	X		X				X		X	Exp.					X	C.,L.
40. Wolf bounties		X		X		X			X	C.L.		X				C.
Dept. of Municipal Affairs																
41. County assessor's office and salary	X	X	X				X		X	Exp.	Stat.	X				C.
42. Disaster relief		X			X			X		Exp.		X				C.,L.
43. Fox bounties		X	X		X				X	C.L.		X				C.,L.
44. Indigent hospitalization		X		X		X			X	Exp.		X				Sp.
45. Pensions, workmen's compensation-firemen		X	X				X		X	Exp.	Pop.	X				L.
46. Pensions, workmen's compensation-policemen		X	X				X		X	Exp.	Pop.	X				L.
47. Redevelopment in redevelopment areas	X		X				X		X	Exp.		X				C.,L.
48. Winter works	X		X				X		X	Exp.		X			X	C.,L.,B.

TABLE 3:6 *(cont.)*

	Purpose		*Local discretion*		*Ministerial discretion*			*Manner of payment*		*Need*	*Fiscal*	*Limitations*				*Eligible*
	Capital	*Cur.*	*Yes*	*No*	*Yes*	*No*	*Part*	*Adv.*	*Reimb.*			*Open*	*Closed*	*Individual*	*Project*	
49. Agricultural drainage works	X		X				X		X	Exp.		X				L.
Public Welfare																
50. Administration welfare units		X	X			X			X	Exp.		X				Sp.
51. Children's Aid Society—capital grant	X		X				X		X	Exp.		X				B.
52. Children's Aid Society—protection service		X	X				X		X	Exp.		X				B.
53. Children's Aid Society—wards		X		X		X			X	Exp.		X				L.
54. Children's Aid Society—wards from U.T.		X				X			X	Exp.		X				B.
55. Children's Aid Society—extra maintenance, U.T.		X	X				X	X		Exp.	Pop.				X	Sp.
56. Additional aid to certain municipalities, U.T.		X										X				Sp.
57. Steno service, U.T.		X										X				Sp.
58. Day nurseries		X	X			X			X	Exp.		X				L.
59. Elderly persons' housing	X		X			X			X	Exp. & C.L.				X		B.
60. Homes for the aged—building, acquiring, altering	X			X			X		X	Exp.		X				B.

61. Furnishing	X			X			X		X	Exp.		X				B.
62. Maintenance		X		X			X		X	Exp.		X				B.
63. Maintaining occupants from U.T.		X		X			X		X	Exp.		X				B.
64. Special home care		X	X				X		X	Exp.				X		C.,L.
65. Homemaker and nursing service		X	X				X		X	Exp.				X		C.,L.
66. Burial of indigents, U.T.		X		X			X		X	C.L. & Exp.				X		C.,L.
67. Dependent foster children		X		X			X		X	Exp.				X		C.,L.
68. Emergency dental service		X		X			X		X	Exp.		X				C.,L.
69. General assistance		X		X			X		X	Exp.	Unempl.			X		C.,L.
70. Incapacitation allowance		X		X			X		X	Exp.				X		C.,L.
71. Medical services		X		X			X		X	Exp.		X				C.,L.
72. Nursing home care		X		X			X		X	Exp.				X		C.,L.
73. Persons in hostels		X		X			X		X	Exp.		X				C.,L.
74. Post-sanatorium allowance		X		X			X		X	Exp.				X		C.,L.
75. Rehabilitation service recipients of government aid		X		X			X		X	Exp.		X				C.,L.
76. Supplemental aid		X		X			X		X	Exp.				X		C.,L.
77. Special articles, U.T.		X		X			X		X	Exp.		X				C.,L.
78. Transportation allowance		X		X			X		X	Exp.		X				C.,L.
79. Transportation allowance, U.T.		X		X			X		X	Exp.		X				C.,L.

TABLE 3:6 (*cont.*)

	Purpose		*Local discretion*		*Ministerial discretion*			*Manner of payment*		*Need*	*Fiscal*	*Limitations*				*Eligible*
	Capital	*Cur.*	*Yes*	*No*	*Yes*	*No*	*Part*	*Adv.*	*Reimb.*			*Open*	*Closed*	*Individual*	*Project*	
Dept. of Public Works																
80. Aid—remedial works	X	X	X		X				X	Exp.		X				C.,L.
81. Jail construction	X			X	X				X	Exp.		X				C.,Ci.
82. Municipal drainage	X			X	X				X	Exp.		X				C.,L.
Dept. of Reform Institutions																
83. Maintenance of jails		X		X			X		X	Exp.		X				C.,Ci.
Dept. of Travel and Publicity																
84. Historic museums—salary		X	X				X		X	Exp.					X	C.,L.,B.
85. Historic museums—other maintenance		X	X				X		X	Exp.					X	C.,L.,B.
86. Establishing historic museums—salary		X	X				X		X	Exp.					X	C.,L.,B.
87. Establishing historic museums—other	X	X	X				X		X	Exp.					X	C.,L.,B.
Liquor Control Board of Ontario																
88. Liquor Control Board—Enforcing Liquor Acts.		X	X				X		X			X				L.,B.
Ontario Hydro-Electric																
89. Rural hydro distribution		X		X			X					X				L.,B.

compulsory local services (of these 19 are in the welfare field). Of the remaining 7, 5 grants are not classified as to local discretion, either for lack of information or because unorganized territory is involved, and 2 grants—#29 (roads, bridges and culverts) and #31 (suburban roads)—are subject to municipal choice when made in aid of construction but are extended automatically for maintenance purposes.

Ministerial discretion is a factor in the making of almost all Ontario grants. Totally dependent on ministerial approval are 34 programs, and partially dependent are 54. The only program that involves any appreciable level of spending and is not so qualified is that on behalf of the wards of Children's Aid Societies. As to form of payment, conditional grants involve reimbursement in 88 of our 99 programs. Advance payments are permitted in 7 grants, the most important being the major road grants (#27 and #29), and payment provisions defy classification in 4 remaining instances.

With respect to municipal need, 85 programs are geared directly to total local expenditure, 2 involve a combination of case load and expenditure, 6 are based entirely on case load and only 6 remaining grants are related to neither case load nor expenditure. The last-mentioned include, by way of example, grants for building development studies (#14), which involve outright sums, and the revenues shared by the Liquor Control Board (#88).

Grant provisions that attempt to discriminate among municipalities on a formula basis are few: there are 10 in all. Of these, only one set of 5 grants is of major importance, that for roads and highways. Here aid varies in accordance with municipal status and, to a lesser extent, population.[7] For the rest, the police and fire grants (for pension plans and workmen's compensation) and, to some extent, health unit grants increase as population decreases; library grants are scaled upward as equalized taxable assessment per capita decreases; and general welfare assistance is subject to a formula increase where sustained and serious unemployment obtains.

Turning to program limitations, only 3 grants are closed in the sense that they operate under a ceiling over total expenditure. Of these, 2—that for plant disease (#2) and that for warble fly control (#4)—are subject to over-all expenditure limits whose level is determined annually. The third, which is that portion of the library grant that is extended in aid of certain special expenditures, has a fixed ceiling of $10,000.[8] There are 34 grants that, while open in terms of total spending, are subject to limitations on the aid extended either to specific individuals (11 grants, nearly all in the welfare category) or to specific projects (the other 23).

[7]Municipal status governs the scale of aid granted under the major road, bridge and culvert grants; see Chapter 2 for the complete description. Population is a factor only for the connecting links of King's highways, where villages, townships and non-separated towns with populations below 2,500 receive special consideration. As noted in the Appendix to Chapter 2, the road grant components applicable to townships and counties were made subject to an equalization formula in years subsequent to the one to which the above applies.

[8]The reader will observe that the libraries grant appears from the Table to be at once open, closed, and limited as to individual subsidy levels. This is because the grant is in three parts. The first (general assistance), which varies with assessment, is open. The second (librarians' salaries) is subject to individual limits on the salary of each librarian. The third (special assistance) is closed.

All remaining 65 grants are completely open both as to total spending and as to the level of individual subsidies.[9]

The last question concerns local eligibility. Here 48 grant programs are extended to all general-purpose local municipalities—i.e., to cities, townships, villages and towns. Including these 48, individual types of municipality are eligible for the following numbers of grants: cities, 51; townships, 52; villages, 49; towns, 49. Counties are eligible for 50 grant programs and boards (Children's Aid Societies, conservation authorities, health units, etc.) for a surprisingly large number—35.

From all of the above, it now becomes possible to construct the archetype of Ontario grant. This grant will be for current expenditure, become operational at the option of the municipality, involve a level of aid that is at least partially subject to ministerial discretion, transact payment under the guise of reimbursement, and operate a formula that consists of a percentage of local expenditure but does not take account of the municipality's fiscal position. The grant is likely to be completely open-ended, although a ceiling on the total aid rendered to any individual municipality or project will appear more than occasionally. Finally, all local municipal governments and/or counties are very commonly eligible, but boards are by no means a rarity.

So much for the archetype, which is no more and no less than a simple abstraction from reality. But it will serve a certain purpose when we attempt in the next section to determine what directions are discernible in Ontario grant policy. So too will the abstraction of grant provisions by certain major functions. The road grants, which rank first in fiscal importance, depart from the archetype in several important respects. They exist for both capital and current purposes, and grants made for the latter (i.e. maintenance) are not subject to local option. Ministerial discretion is only partial, and advance payment on the basis of provincial-municipal agreements is common. While road grants are based on percentage-of-cost formulas, they again depart from the archetype in that variable percentages accrue to municipalities with differing status. For the rest they conform to the archetype in that they are completely open and available both to counties and local municipalities.

Welfare grants, for their part, depart from the archetype in three important respects: (1) they are often not a matter of local discretion, (2) limits on aid to any given individual are extremely common and (3) boards (e.g. Children's Aid Societies and old people's homes) are frequent recipients. Grants for general government and protection to persons and property generally conform to the archetype. However, the former are often for counties exclusively and the latter incorporate the special population formula that determines the level of provincial aid to local fire and police services. Health grants depart from the archetype in the frequency with which case load, rather than expenditure, is the prime determinant of provincial aid; the fiscal formula that determines grants to health units is, of course, a singular variation. Finally, grants designed to subsidize the ameli-

[9]This breakdown totals 102 because the library grant has been counted three times and winter works twice. The library breakdown is explained in footnote 8; as to winter works grants, all are open except those on municipal buildings, which have a project ceiling of $150,000.

oration of the local environment, whether urban or rural, are marked by the extent to which capital undertakings are involved and by the frequency with which boards (conservation authorities) are recipients.

PROVINCIAL GRANTS AND PUBLIC POLICY

At the risk of undue repetition, let it be said once more that the work of classifying Ontario grants and of distilling them into an archetype and several sub-types represents nothing other than a *tour de force*. Facts have been sawed, stretched and otherwise mangled in the process of being tailored to their preconceived receptacles. But the end goal is only to reduce an overwhelming mass of detail to manageable proportions, and this not to arrive at universal truth but rather to secure a base from which to launch some educated guesses—guesses as to what policy directions, however inarticulate, underlie grants to municipalities in Ontario.

Ontario's grants, as we have already pointed out, provide an important link between different levels of government. Furthermore, their development has followed quite faithfully the series of challenges that the twentieth century has posed to the public sector. But grants can surely serve as something more than a mechanism of response to the social problems that beset a multi-level structure of government. They can be tailored to affect intergovernmental relations as such. It is to the question of whether Ontario grants have been tailored with these relations in mind that we now address ourselves.

Beginning in general terms, it is evident that provincial grants can be used to serve a variety of ends other than the simple performance of the government function to which they are devoted. They can be designed to encourage a municipality to supply an optional service that would not otherwise be provided. They can be used to stimulate higher standards of performance in the provision of already existing services. Or they can be used to ease the municipal task of discharging a compulsory function. Grants are also a potential device for redistributing resources among municipalities, or a substitute for local non-property taxes, or a means for easing the tax burden on property or certain classes of property. Let us try to detect what traces of the above motives appear in Ontario grant programs.

The general unconditional grant provides a simple starting point. Here it is plain that the Province is interested in providing relief to certain classes of local taxpayers, namely owners of residential and farm property. Beyond this the unconditional grant, at least in its origins, is designed in particular recognition of the local burden created by the provision of certain services (social welfare and administration of justice), services that are believed to become more burdensome as population rises. Hence the grant incorporates a redistributive effect, favouring the more populated municipalities with larger per-capita payments.

The situation is vastly different when we come to the archetypal conditional grant. Here there is no attempt to subsidize a particular type of taxpayer. Nor is there any deliberate attempt at discriminating among municipalities. Rather, there exists an open-ended grant geared simply to municipal expenditure on a

designated service. This, it may be noted, can result in intermunicipal redistribution of funds, but only in so far as a municipality, either by choice or from the force of its peculiar circumstances, spends more on the aided service than its counterparts. The typical grant may spur a municipality to higher standards of service, but it can just as easily result in a re-allocation of the local budget either to the enhancement of non-aided services or to the benefit of the local taxpayer. Maximum limits on aid to a particular project, especially when they appear in a grant for an optional local service, can safely be taken to indicate that there exists a level of spending beyond which the Province would consider its aid to be an outright subsidy rather than an incentive to meet certain standards.

Turning to major sub-types of grants by function, the field of transportation probably involves provincial considerations quite different from those that govern the archetype. The extension of aid to any approved level of road construction expenditure indicates that standards (save for connecting links on King's highways) are policed lightly but perhaps effectively through the mechanism of departmental approval. Maintenance expenditure, which is compulsory for the municipality that has completed the capital project, is probably subsidized by provincial funds more as an incentive to the original capital undertaking than as a means of ensuring maintenance standards (we can safely assume that local taxpayers using a road will police municipal maintenance standards to an appreciable extent).

We should note at this point that road expenditures, unlike most other components of intergovernmental finance, can become subject to allocation on a benefit-cost basis. These expenditures benefit two classes of persons: road users, and those who, as owners or occupants of property, gain access from roads. Because they are armed with the property tax, municipalities are in a position to recover the road costs that accrue from the provision of access benefits. Meantime, the Province can finance user benefits through its gasoline tax, which applies to road users.[10] As will be explained later, the present system of road grants in Ontario falls far short of allocating municipal road costs in accordance with user benefits, which would determine the level of grants, and access benefits, which would be met by the property tax. None the less, the fact that road finance is at least subject in principle to a rational division of labour between provincial and municipal levels of government has given road grants a high degree of acceptability and explains in part the light provincial policing of standards that is a feature of existing grants.

Not least because it lacks a foundation justifying intergovernmental sharing in principle, the welfare function offers a marked contrast to roads. Here provincial and local governments are involved in what is at best an uneasy partnership. The frequency with which welfare programs involve local compunction is an index of provincial concern over the maintenance of standards by municipal governments. And again the relatively rigid formal rules governing the levels of aid rendered to individuals undoubtedly exist more to protect the recipients than to safeguard the provincial treasury from overly generous local councils. The thrust of provincial

[10]For an excellent discussion, see Canadian Tax Foundation, *Taxes and Traffic* (Toronto, 1955), Chapters 8 and 9.

grant policy in the welfare field is clear—it is to coerce more than to subsidize an occasionally reluctant partner into the desired degree of activity.

Policy purposes served by grants to general government are fairly obscure. These grants, save for their strong orientation toward county government, generally conform to the archetype; if anything they are probably more an outright subsidy than a service incentive. An exception, however, can be found in the county assessor's grant, a recent program which is obviously designed to improve assessment standards. As for protection, the fire and police grants (for pensions and workmen's compensation) indicate, as did the more general program of 1949 that anteceded them, concern for local improvement of service standards. The formula whereby the percentage of provincial aid increases as population decreases reveals particular solicitude for the performance of the smaller municipalities. There can be little doubt that the broader police and fire grants in effect from 1949 through 1953 generated a fiscal incentive to enhance service standards. But it is equally certain that their existing remnants do little more than subsidize small municipalities in particular to provide fringe benefits to certain classes of public employees.

Grants for health services clearly encourage the maintenance of minimal service levels, as witness the frequent occurrence of compensation by case load. The health unit grants are a particular instance of provincial attempts to induce boundary reorganization. It will be recalled that they are paid according to a formula that favours municipalities other than cities, and smaller cities over larger cities. To a point, therefore, provincial policy is to offer extra inducement to the reorganization of health services in the less densely populated municipalities.

Grants oriented toward the amelioration of the local environment reflect a mosaic of policy aims. In one, the general grants for public libraries, equalization is a clear goal (witness the formula based on equalized taxable assessment). But for the rest, provincial policy has no grounding in fiscal equity and seems to entail not so much the attainment of a certain standard as the simple stimulation of local concern for a new function. This is particularly true of redevelopment and conservation.

Among the remaining grant programs, it should be pointed out that there are instances where policy aims originate not at the provincial but rather at the federal level. Winter works is a case in point; so is the emergency measures (civil defence) grant. The employment aim of the winter works program is unambiguous; and it should be recalled that the provisions of this program go so far as to increase the proportional size of the federal-provincial contribution to municipalities with consistently high rates of unemployment.

Federal-provincial arrangements aside, can it be said in summary fashion that there exists a discernible outline of provincial policy regarding conditional grants to municipalities? The answer, upon reflection, must be no. There has been no provincial policy, at least of a comprehensive sort. It is possible to discern what are often not so much provincial policies as departmental policies. Some grant programs, such as those in the welfare field, are designed in part to police local standards for long-established functions. Others, such as most of the environmental grants, are plainly appetite-whetting subsidies designed to induce local

governments to provide new services. For their part, road grants tremble on the brink of a rational basis in benefit-cost analysis, but continue to differentiate among municipalities on the basis of legal status. Then there are grant programs, such as those for health units or county assessment, that look toward more efficient administrative arrangements and as such constitute departmental substitutes for general provincial action designed to redraw municipal boundaries or secure county administration. There is perhaps no better indicator of the non-existence of anything approaching a genuine provincial grant policy than the inconsistency that exists among the few grant programs that attempt to differentiate among municipalities on a formula basis. Thus, for instance, the library grants of the Department of Education attempt to achieve fiscal equity by favouring municipalities with a low per-capita equalized taxable assessment. The Department of Health, on the other hand, favours small municipalities without regard to fiscal capacity. But through the unconditional grant administered by the Department of Municipal Affairs, the Province does the reverse and favours larger municipalities with larger per-capita payments. Simultaneously, the very same Department administers police and fire grants that again favour the smaller municipalities.

To revert to a major theme of this study, the provincial grant scene is hyper-fractionalized. Given the manner in which grant programs were developed at widely different times and for very different purposes in a world of quasi-subordinate municipalities, this is in large part understandable. But as grant revenue has gradually becomes a major item in the local budget, it has also acquired an importance that goes well beyond its contribution to any given function and into the realm of a municipality's over-all fiscal position. It is to the existing relationship between grants and municipal finance that we now turn.

CHAPTER 4

Provincial-Municipal Finance: A Statistical Examination

HOW do provincial grants affect the financial position of Ontario municipalities? Two types of answer could be developed in reply. One type would seek to analyse carefully the financial standing of every municipality in Ontario, or of a selected group of municipalities, with due attention to historical circumstances, tax base, service demands and budgetary processes. A second type would seek simply to trace the *relative* impact of grants on the finances of various municipalities by attempting to determine, for example, if grants tend to favour municipalities with higher expenditure or lower taxable capacity and so on. The first type of answer would yield far more satisfactory results but would also involve many man-years of labour. Hence this study must perforce be content with the second line of approach, and even this in a highly abbreviated form.

The statistical exercise on which we now embark is based on a sample of Ontario municipalities. Only general-purpose local municipalities—i.e. cities, towns, townships and villages—will be studied, and from these only a small sample of 43 municipalities has been chosen. This sample, which includes all Ontario cities of 30,000 and over, was selected to provide a representative group of municipalities.[1] In the pursuit of answers to how Ontario grants affect municipal finance, the sample will be tested for the light it can shed on three possible relationships. First it will be examined to determine whether provincial grants are somehow tied to municipal expenditure. Next, it will be analysed to see whether provincial grants are related in some manner to municipal assessment. Finally, it will be tested in an attempt to discover whether provincial grants, municipal tax levies and the local tax base have common bonds.

Provincial Grants and Municipal Expenditure

Table 4:1 presents a ranking of the sample of 43 municipalities according to expenditure per capita and grant receipts per capita.[2] The ranking is designed to test a hypothesis: that the higher the expenditure per capita, the greater the grants

[1]The sample is identical to that selected for the property tax studies conducted for The Ontario Committee on Taxation, save that it excludes the Municipality of Metropolitan Toronto and its constituent municipalities.

[2]The figures in Table 4:1, and for all succeeding tables in this chapter, have been derived from the Annual Statistical Report of the Ontario Department of Municipal Affairs for 1962 (the "Blue Book"), from the Public Accounts of Ontario for 1962-63 and from the Grants Register of the Department of Municipal Affairs. Unfortunately, the municipal expenditure figures, taken from the Blue Book, are not reported on an accounting basis exactly similar to the grant figures derived from the Public Accounts and the Grants Register. Then too, municipal expenditure figures are for the local fiscal year, which begins and ends three months before the provincial fiscal year. But since the figures, as explained below, are the object of an exercise in rank correlation, they are being examined in order to determine tendencies rather than to yield precise indications of any single municipality's financial condition.

per capita. The municipalities are assigned a rank in descending order of both per-capita figures: i.e. the municipality with the highest expenditure per capita receives the rank of 1, that with the 5th highest the rank of 5, etc.; and similarly with grants per capita. In addition to ranking municipalities according to total expenditure per capita and total grants per capita[3] (columns I and II), Table 4:1 also ranks the municipalities according to total expenditure per capita and total unconditional grants per capita (columns I and III), public works expenditure per capita and highways and public works grants per capita (columns IV and V),[4] and welfare expenditures per capita and welfare grants per capita (columns VI and VII). Table 4:1 is followed by three companion tables which simply break down the sample into rank orders that follow municipal status. Thus Table 4:2 ranks cities, Table 4:3 towns and vilages and Table 4:4 townships.

The most casual glance at Table 4:1 will indicate that there scarcely exists a perfect relationship between expenditure and grants per capita. Were this relationship perfect in terms of the rank hypothesis, Windsor, the first municipality in terms of total expenditure per capita ($124.69) would also be first in terms of total grants per capita. Instead we find that Windsor is only eighth in grants per capita ($19.89) and that it is Carden Township, which ranks thirteenth in expenditure per capita ($104.96), that is first in grants per capita ($40.89).

While the actual relationship between expenditure and grants per capita does not then conform perfectly to our hypothesis, there exists a statistical technique whereby we can discover whether there is some tendency for our hypothesis to be borne out, some tendency for municipalities with high expenditures per capita to receive higher grants per capita than municipalities with low expenditure per capita. This technique consists of discovering the coefficient of rank correlation that corresponds to the sets of rankings shown in the Table.[5] Coefficients of rank correlation have a value that ranges between +1.00 and −1.00. A coefficient of +1.00 would mean that the rankings based on our hypothesis were perfect—i.e., that the municipality with the highest expenditure per capita would have received the highest grants per capita, that the municipality with the second highest expenditure per capita would have received the second highest grants per capita and so on, right to the municipality with the lowest expenditure per capita which would have received the lowest grants per capita. Conversely, a coefficient of −1.00 would indicate exactly the reverse of our hypothesis: that the municipality with the highest expenditure per capita had received the lowest grants per capita, and that it would be followed in perfect order by all remaining municipalities down to that with the lowest expenditure per capita which would have received the highest grants per capita. On the other hand, if the coefficient were 0.00, it would indicate

[3]"Total grants per capita" excludes all payments in lieu of taxes, including special payments to Ontario mining municipalities. The sample incorporates three mining municipalities: Sudbury, Timmins, and Teck Township.

[4]The problem of procuring consistent data was most acute for public works and highways. It is virtually impossible to secure municipal expenditure figures that cover both capital and current spending on these items. On the other hand, grant figures normally include both capital and current expenditure.

[5]The formula whereby coefficients of rank correlation are derived is:

$$Rr = 1 - \frac{6\Sigma d^2}{N^3 - N}$$

that no relationship whatever existed between expenditure and grants. From this the reader can appreciate that the significance of any given coefficient lies in the extent to which it approaches +1.00 or −1.00. Thus a coefficient of rank correlation equal to +0.85 will mean that there is a strong tendency for grants per capita to rise with expenditure per capita. And a coefficient of −0.70 will mean that grants are very likely to be low where municipal expenditure is high. But coefficients of +0.14 or −0.18 will indicate that no meaningful relationship exists.

TABLE 4:1

Expenditures Per Capita and Grants Per Capita

	I		II		III	
Municipality	*Total expenditure*	*Rank*	*Total grant*	*Rank*	*Unconditional grant*	*Rank*
Windsor	$124.69	1	$19.89	8	$4.25	4
Ottawa	120.90	2	14.53	26	4.38	2
Hamilton	120.40	3	16.90	14	3.58	16
Sudbury	120.29	4	19.29	9	3.214	22
Oshawa	119.09	5	13.89	28	3.94	14
Sarnia	118.68	6	20.72	6	4.03	7
Sault Ste Marie	113.06	7	14.78	25	2.93	35
Peterborough	112.62	8	14.27	27	3.980	12
Kingston	111.66	9	15.15	21	4.12	6
Brantford	109.009	10	13.31	31	4.021	8
Kitchener	109.003	11	10.67	36	3.84	15
St. Catharines	105.86	12	15.89	18	4.26	3
Carden Twp.	104.96	13	40.89	1	3.290	20
Guelph	104.39	14	11.73	35	3.95	13
Atikokan Twp.	103.76	15	17.70	12	2.52	39
London	103.25	16	16.09	15	4.19	5
Cornwall	102.25	17	21.23	3	4.00	10
Arnprior	100.87	18	12.86	33	3.208	23
Belleville	98.80	19	15.01	22	4.020	9
Chippawa	94.47	20	12.49	34	3.02	31
Welland	94.19	21	14.87	24	3.984	11
Thedford	91.42	22	10.58	37	5.06	1
Cobourg	89.38	23	19.00	10	3.43	17
Sturgeon Falls	81.54	24	21.13	5	2.18	41
Greenock Twp.	76.41	25	27.90	2	3.19	24
Timmins	76.28	26	17.78	11	2.73	38
Powassan	66.84	27	5.83	43	1.95	43
Streetsville	65.45	28	8.12	39	3.083	29
Plantagenet S. Twp.	63.95	29	20.23	7	3.05	30
Teck Twp.	63.43	30	13.42	30	2.51	40
Charlotteville Twp.	62.69	31	21.15	4	3.00	32
Hillier Twp.	56.65	32	15.58	19	3.084	28
Colborne	52.87	33	9.71	38	2.96	34
Orillia Twp.	50.00	34	15.00	23	3.146	26
Delaware Twp.	49.80	35	17.68	13	2.98	33
Goderich Twp.	49.48	36	16.02	17	2.76	37
Cumberland Twp.	48.05	37	16.06	16	3.13	27
Maidstone Twp.	44.12	38	15.51	20	3.22	21
Wilmot Twp.	42.54	39	13.47	29	3.292	19
Woolwich Twp.	41.12	40	12.97	32	3.34	18
Massey	38.85	41	7.22	41	2.10	42
Springfield	36.30	42	7.89	40	3.152	25
Wellesley	32.50	43	6.36	42	2.87	36
Coefficient			Rr = +.27		Rr = +.58	

TABLE 4:1 *(cont.)*

	IV		V	
Municipality	*Public Works expenditure*	*Rank*	*Highways and public works grants*	*Rank*
Carden Twp.	$69.41	1	$36.67	1
Greenock Twp.	45.62	2	22.75	2
Charlotteville Twp.	30.80	3	16.03	3
Goderich Twp.	22.80	4	12.17	5
Cumberland Twp.	21.96	5	10.84	9
Plantagenet S. Twp.	21.07	6	11.70	7
Atikokan Twp.	18.75	7	9.39	13
Hillier Twp.	18.65	8	9.78	12
Cobourg	17.86	9	12.18	4
St. Catharines	17.81	10	6.55	20
Arnprior	17.07	11	5.36	26
Belleville	17.04	12	4.80	29
Chippawa	16.07	13	8.01	18
Wilmot Twp.	15.83	14	9.34	14
Orillia Twp.	15.78	15	9.85	11
Woolwich Twp.	15.66	16	8.64	16
Welland	15.49	17	5.99	24
Peterborough	15.37	18	3.12	36
Sudbury	14.43	19	9.23	15
Brantford	13.59	20	5.46	25
Delaware Twp.	13.14	21	11.74	6
Sault Ste Marie	12.44	22	8.17	17
London	12.39	23	6.47	21
Maidstone Twp.	12.30	24	10.70	10
Teck Twp.	12.25	25	3.41	33
Guelph	11.40	26	5.33	28
Colborne	11.23	27	2.83	39
Cornwall	11.19	28	5.35	27
Ottawa	11.09	29	6.04	23
Sturgeon Falls	10.91	30	11.53	8
Kingston	9.98	31	3.19	35
Thedford	9.82	32	2.78	40
Kitchener	9.74	33	4.7596	31
Hamilton	8.75	34	4.7597	30
Wellesley	8.53	35	3.34	34
Timmins	8.31	36	6.89	19
Oshawa	8.21	37	6.24	22
Springfield	7.74	38	3.06	37
Streetsville	7.45	39	3.01	38
Sarnia	6.00	40	3.67	32
Powassan	5.45	41	2.50	42
Windsor	4.76	42	2.76	41
Massey	1.82	43	.98	43
Coefficient			Rr = +.77	

TABLE 4:1 *(cont.)*

	VI		VII	
Municipality	*Welfare expenditure*	*Rank*	*Welfare grants*	*Rank*
Cornwall	$25.59	1	$9.55	1
Sturgeon Falls	24.46	2	6.49	3
Windsor	22.21	3	7.72	2
Timmins	16.23	4	5.53	5
Peterborough	14.54	5	5.42	6
Hamilton	14.15	6	5.13	7
Belleville	13.91	7	4.14	9
Teck Twp.	13.11	8	5.11	8
Welland	11.91	9	3.42	11
Ottawa	11.23	10	3.91	10
St. Catharines	10.08	11	2.89	13
Kingston	10.03	12	5.59	4
Sault Ste Marie	8.03	13	2.23	17
London	7.83	14	2.65	16
Oshawa	7.72	15	2.69	15
Sudbury	7.65	16	1.91	23
Brantford	7.49	17	2.09	18
Delaware Twp.	7.17	18	2.05	21
Massey	6.67	19	3.29	12
Sarnia	5.78	20	1.94	22
Atikokan Twp.	5.49	21	2.075	20
Hillier Twp.	4.81	22	2.72	14
Cumberland Twp.	4.46	23	2.083	19
Kitchener	4.17	24	.80	37
Orillia Twp.	4.08	25	1.58	27
Cobourg	3.91	26	1.818	24
Charlotteville Twp.	3.15	27	1.817	25
Arnprior	2.91	28	1.70	26
Plantagenet S. Twp.	2.70	29	1.34	29
Guelph	2.44	30	.96	33
Chippawa	2.23	31	.99	32
Maidstone Twp.	2.08	32	1.04	31
Colborne	2.04	33	1.52	28
Greenock Twp.	1.55	34	1.07	30
Goderich Twp.	1.44	35	.92	34
Powassan	1.39	36	.19	42
Woolwich Twp.	.97	37	.81	36
Carden Twp.	.85	38	.90	35
Streetsville	.81	39	.23	41
Wilmot Twp.	.75	40	.61	39
Wellesley	.74	41	.15	43
Springfield	.60	42	.48	40
Thedford	.18	43	.74	38
Coefficient			Rr = +.95	

The several coefficients of rank correlation appear at the end of the appropriate columns of Table 4:1-4:4 as follows: between total expenditure per capita and total grants per capita, column II; between total expenditures per capita and unconditional grants per capita, column III; between public works expenditure and highways and public works grants, column V; and between welfare expenditure and welfare grants, column VII.

Beginning with the relationship between total expenditure per capita and total grants per capita for our entire sample, we note a coefficient of +0.27. This signifies that there exists a slight tendency within the sample for grants per capita to rise with expenditure per capita, a tendency which it is safe to assume, given the size of the coefficient, would still hold if all Ontario municipalities had been ranked.[6] Turning to the distinct rankings of municipalities in Tables 4:2, 4:3 and 4:4, however, we should note that the general tendency for grants to rise with expenditure may be limited to towns and villages (+0.69), and townships (+0.71). The coefficient for cities is but +0.14. A tentative explanation for this phenomenon is that cities may incur higher expenditure in the performance of functions for which no grants exist than do towns, villages and townships. The result would be that higher expenditures would be less likely to result in higher grants among cities than among the other classes of municipality.

TABLE 4:2

Expenditures Per Capita and Grants Per Capita: Cities

	I		II		III	
Municipality	*Total expenditure*	*Rank*	*Total grant*	*Rank*	*Unconditional grant*	*Rank*
Windsor	$124.69	1	$19.89	3	$4.25	3
Ottawa	120.90	2	14.53	12	4.38	1
Hamilton	120.40	3	16.90	5	3.58	15
Sudbury	120.29	4	19.29	4	3.214	16
Oshawa	119.09	5	13.89	14	3.94	13
Sarnia	118.68	6	20.72	2	4.03	6
Sault Ste Marie	113.06	7	14.78	11	2.93	17
Peterborough	112.62	8	14.27	13	3.980	11
Kingston	111.66	9	15.15	8	4.12	5
Brantford	109.009	10	13.31	15	4.021	7
Kitchener	109.003	11	10.67	17	3.84	14
St. Catharines	105.86	12	15.89	7	4.26	2
Guelph	104.39	13	11.73	16	3.95	12
London	103.25	14	16.09	6	4.19	4
Cornwall	102.25	15	21.23	1	4.00	9
Belleville	98.80	16	15.01	9	4.020	8
Welland	94.19	17	14.87	10	3.984	10
Coefficient			Rr = +.14		Rr = −.04	

[6]A simple test of rank correlation significance has been applied by the author. The formula for this test is:

$$T = \frac{Rr - 0}{\frac{1}{\sqrt{N-1}}}$$

Because this test can be used only when the sample is 25 or more, it has been applied to the total sample only.

TABLE 4:2 (*cont.*)

	IV		V	
Municipality	*Public works expenditure*	*Rank*	*Highways and public works grants*	*Rank*
St. Catharines	$17.81	1	$6.55	3
Belleville	17.04	2	4.80	11
Welland	15.49	3	5.99	7
Peterborough	15.37	4	3.12	16
Sudbury	14.43	5	9.23	1
Brantford	13.59	6	5.46	8
Sault Ste Marie	12.44	7	8.17	2
London	12.39	8	6.47	4
Guelph	11.40	9	5.33	10
Cornwall	11.19	10	5.35	9
Ottawa	11.09	11	6.04	6
Kingston	9.98	12	3.19	15
Kitchener	9.74	13	4.7596	13
Hamilton	8.75	14	4.7597	12
Oshawa	8.21	15	6.24	5
Sarnia	6.00	16	3.67	14
Windsor	4.76	17	2.76	17
Coefficient			Rr = +.45	

	VI		VII	
Municipality	*Welfare expenditure*	*Rank*	*Welfare grants*	*Rank*
Cornwall	$25.59	1	$9.55	1
Windsor	22.21	2	7.72	2
Peterborough	14.54	3	5.42	4
Hamilton	14.15	4	5.13	5
Belleville	13.91	5	4.14	6
Welland	11.91	6	3.42	8
Ottawa	11.23	7	3.91	7
St. Catharines	10.08	8	2.89	9
Kingston	10.03	9	5.59	3
Sault Ste Marie	8.03	10	2.23	12
London	7.83	11	2.65	11
Oshawa	7.72	12	2.69	10
Sudbury	7.65	13	1.91	15
Brantford	7.49	14	2.09	13
Sarnia	5.78	15	1.94	14
Kitchener	4.17	16	.80	17
Guelph	2.44	17	.96	16
Coefficient			Rr = +.93	

Coming now to unconditional grants, we note from a coefficient of +0.58 in the over-all sample a somewhat stronger tendency for unconditional grants per capita to rise with total expenditure per capita than there was for total grants. This might be expected from the provisions of the unconditional grant program which scale grants upward with population on the assumption that expenditure per capita rises as population increases. Paradoxically enough, the tendency noted in the over-all sample does not carry over into the breakdown by municipal class.

TABLE 4:3

Expenditures Per Capita and Grants Per Capita: Towns and Villages

	I		II		III	
Municipality	*Total expenditure*	*Rank*	*Total grant*	*Rank*	*Unconditional grant*	*Rank*
Arnprior	$100.87	1	$12.86	4	$3.21	3
Chippawa	94.47	2	12.49	5	3.02	6
Thedford	91.42	3	10.58	6	5.06	1
Cobourg	89.38	4	19.00	2	3.43	2
Sturgeon Falls	81.54	5	21.13	1	2.18	10
Timmins	76.28	6	17.78	3	2.73	9
Powassan	66.84	7	5.83	12	1.95	12
Streetsville	65.45	8	8.12	8	3.08	5
Colborne	52.87	9	9.71	7	2.96	7
Massey	38.85	10	7.22	10	2.10	11
Springfield	36.30	11	7.89	9	3.15	4
Wellesley	32.50	12	6.36	11	2.87	8
Coefficient			Rr = +.69		Rr = +.42	

	IV		V	
Municipality	*Public works expenditure*	*Rank*	*Highways and public works grants*	*Rank*
Cobourg	$17.86	1	$12.18	1
Arnprior	17.07	2	5.36	5
Chippawa	16.07	3	8.01	3
Colborne	11.23	4	2.83	9
Sturgeon Falls	10.91	5	11.53	2
Thedford	9.82	6	2.78	10
Wellesley	8.53	7	3.34	6
Timmins	8.31	8	6.89	4
Springfield	7.74	9	3.06	7
Streetsville	7.45	10	3.01	8
Powassan	5.45	11	2.50	11
Massey	1.82	12	.98	12
Coefficient			Rr = +.71	

	VI		VII	
Municipality	*Welfare expenditure*	*Rank*	*Welfare grants*	*Rank*
Sturgeon Falls	$24.46	1	$6.49	1
Timmins	16.23	2	5.53	2
Massey	6.67	3	3.29	3
Cobourg	3.91	4	1.818	4
Arnprior	2.91	5	1.70	5
Chippawa	2.23	6	.99	7
Colborne	2.04	7	1.52	6
Powassan	1.39	8	.19	11
Streetsville	.81	9	.23	10
Wellesley	.74	10	.15	12
Springfield	.60	11	.48	9
Thedford	.18	12	.74	8
Coefficient			Rr = +.87	

TABLE 4:4

Expenditures Per Capita and Grants Per Capita: Townships

	I		II		III	
Municipality	*Total expenditure*	*Rank*	*Total grant*	*Rank*	*Unconditional grant*	*Rank*
Carden Twp.	$104.96	1	$40.89	1	$3.290	3
Atikokan Twp.	103.76	2	17.70	5	2.52	13
Greenock Twp.	76.41	3	27.90	2	3.19	5
Plantagenet S. Twp.	63.95	4	20.23	4	3.05	9
Teck Twp.	63.43	5	13.42	13	2.51	14
Charlotteville Twp.	62.69	6	21.15	3	3.00	10
Hillier Twp.	56.65	7	15.58	9	3.084	8
Orillia Twp.	50.00	8	15.00	11	3.146	6
Delaware Twp.	49.80	9	17.68	6	2.98	11
Goderich Twp.	49.48	10	16.02	8	2.76	12
Cumberland Twp.	48.05	11	16.06	7	3.13	7
Maidstone Twp.	44.12	12	15.51	10	3.22	4
Wilmot Twp.	42.54	13	13.47	12	3.292	2
Woolwich Twp.	41.12	14	12.97	14	3.34	1
Coefficient			Rr = +.71		Rr = −.39	

	IV		V	
Municipality	*Public works expenditure*	*Rank*	*Highways and public works grants*	*Rank*
Carden Twp.	$69.41	1	$36.67	1
Greenock Twp.	45.62	2	22.75	2
Charlotteville Twp.	30.80	3	16.03	3
Goderich Twp.	22.80	4	12.17	4
Cumberland Twp.	21.96	5	10.84	7
Plantagenet S. Twp.	21.07	6	11.70	6
Atikokan Twp.	18.75	7	9.39	11
Hillier Twp.	18.65	8	9.78	10
Wilmot Twp.	15.83	9	9.34	12
Orillia Twp.	15.78	10	9.85	9
Woolwich Twp.	15.66	11	8.64	13
Delaware Twp.	13.14	12	11.74	5
Maidstone Twp.	12.30	13	10.70	8
Teck Twp.	12.25	14	3.41	14
Coefficient			Rr = +.75	

	VI		VII	
Municipality	*Welfare expenditure*	*Rank*	*Welfare grants*	*Rank*
Teck Twp.	$13.11	1	$5.11	1
Delaware Twp.	7.17	2	2.05	5
Atikokan Twp.	5.49	3	2.075	4
Hillier Twp.	4.81	4	2.72	2
Cumberland Twp.	4.46	5	2.083	3
Orillia Twp.	4.08	6	1.58	7
Charlotteville Twp.	3.15	7	1.817	6
Plantagenet S. Twp.	2.70	8	1.34	8
Maidstone Twp.	2.08	9	1.04	10
Greenock Twp.	1.55	10	1.07	9
Goderich Twp.	1.44	11	.92	11
Woolwich Twp.	.97	12	.81	13
Carden Twp.	.85	13	.90	12
Wilmot Twp.	.75	14	.61	14
Coefficient			Rr = +.95	

Towns and villages, with a coefficient of +0.42, generally conform, but townships at —0.39 actually reveal a tendency to rank in inverse order (unconditional grants falling as expenditure rises), and cities at —0.04 show no relationship whatever between grants and expenditures. Taken by themselves, the samples of townships and of towns and villages, being relatively small, may not belie the over-all trend. But that the ranking of cities shows no correlation whatever is certainly significant because all cities of over 30,000 appear. This means that, at least for this municipal class, the unconditional grants which are designed to rise with population in the belief that higher per-capita costs coincide with size do not in fact register the per-capita increases in step with per-capita outlays that the legislation attempts to provide.

Public works and highways bring us to that part of the Tables where the data on which the rankings are based are least reliable.[7] None the less, because the coefficients of rank correlation are large and because they are also consistent as between the total sample and the individual municipal breakdowns (sample +0.77, cities +0.45, towns and villages +0.71 and townships +0.75) we can assert that there exists a tendency for municipalities with higher public works and highways expenditure per capita to receive higher grants per capita for these functions.

It is when we finally come to welfare that the strongest relationship between expenditure and grants appears. Here the rank correlation is almost perfect, the sample coefficient being +0.95, the city coefficient +0.93, the town and village coefficient +0.87 and the township coefficient +0.95. It is thus abundantly apparent that welfare grants are very closely in step with welfare spending and that a municipality with high expenditure per capita on this function will also receive high grants per capita.

But at this juncture we must strike a note of caution. Our statistical exercise has attempted to relate grants per capita to expenditures per capita which themselves include the grant. As a result, there creeps in a measure of "auto-correlation" which influences the results in direct relation to the extent to which grants constitute an appreciable portion of expenditure. Since this situation obtains particularly in the realm of highways and welfare, the positive results may well be exaggerated.

Our statistical exercise in the realm of expenditure and grants per capita can now be said to yield the following summary conclusions. First, there exists a slight tendency for municipalities with high over-all per-capita expenditure to receive high total grants per capita. Second, unconditional grants bear no relation to the over-all expenditure per capita of cities but tend to rise with expenditure per capita when all types of municipality are considered jointly. Finally, the highly positive correlation between grants and expenditure for highways and welfare is of interest but should be discounted somewhat because of auto-correlation.

Expenditure represents an important facet of municipal finance. It essentially records the consequences of municipal spending decisions that have been based on a combination of necessity and choice. But an equally important facet is the revenue base which determines the resources available for expenditure. Let us now turn our attention to the relationship between grants and revenue capacity.

[7]See footnote 4 above.

Table 4:5

Grants per Capita and Equalized Taxable Assessment per Capita

	I		II		III		IV		V		VI		VII		VIII		IX	
							Re: Optional Services											
Municipality	E. T. A. per cap.	Rank	Total grants	Rank	Uncondi-tional grants	Rank	Miscel-laneous grants	Rank	Highways grants	Rank	Municipal affairs grants	Rank	Balance	Rank	Highways and public works grants	Rank	Welfare grants	Rank
Carden Twp.	$2,402	1	$40.89	43	$3.290	24	—	—	$22.66	43	—	—	$14.93	43	$36.67	43	$ .90	9
Chippawa	2,241	2	12.49	10	3.02	13	$ .401	4	4.95	27	$ .089	4	4.03	13	8.01	26	.99	12
Oshawa	2,176	3	13.89	16	3.94	30	.628	7	3.86	22	.407	17	5.05	17	6.24	22	2.69	29
Sault Ste Marie	2,170	4	14.78	19	2.93	9	.917	15	5.05	28	.480	20	5.40	21	8.17	27	2.23	27
Hamilton	2,160	5	16.90	30	3.58	28	.736	10	2.942	14	1.704	26	7.94	37	4.7597	14	5.13	37
Ottawa	2,045	6	14.53	18	4.38	42	.738	11	3.15	16	.429	19	5.83	28	6.04	21	3.91	34
Kitchener	2,014	7	10.67	8	3.84	29	1.056	17	2.941	13	.167	7	2.66	7	4.7596	13	.80	7
Windsor	1,916	8	19.89	36	4.25	40	2.274	33	1.71	3	2.715	27	8.95	39	2.76	3	7.72	42
Welland	1,866	9	14.87	20	3.984	33	.748	12	3.70	21	.336	14	6.10	29	5.99	20	3.42	33
Brantford	1,863	10	13.31	13	4.021	36	1.441	24	3.37	20	.297	12	4.17	16	5.46	19	2.09	26
Sarnia	1,824	11	20.72	38	4.03	37	1.768	30	2.27	12	9.179	28	3.47	9	3.67	12	1.94	22
Thedford	1,759	12	10.58	7	5.06	43	2.002	31	1.72	4	—	—	1.80	5	2.78	4	.74	6
Guelph	1,740	13	11.73	9	3.95	31	.570	6	3.29	17	.864	24	3.05	8	5.33	16	.96	11
London	1,683	14	16.09	29	4.19	39	2.440	35	4.00	23	.207	9	5.25	18	6.47	23	2.65	28
Peterborough	1,613	15	14.27	17	3.980	32	1.459	25	1.93	8	.230	10	6.67	33	3.12	8	5.42	38
Maidstone Twp.	1,479	16	15.51	24	3.22	23	3.849	37	4.32	26	.417	18	3.71	11	10.70	34	1.04	13
Kingston	1,478	17	15.15	23	4.12	38	1.051	16	1.97	9	.718	22	7.29	35	3.19	9	5.59	40
St. Catharines	1,464	18	15.89	26	4.26	41	1.750	28	4.05	24	.315	13	5.52	22	6.55	26	2.89	31
Greenock Twp.	1,449	19	27.90	42	3.19	20	.889	14	14.06	42	—	—	9.76	40	22.75	42	1.07	14
Goderich Twp.	1,447	20	16.02	27	2.76	7	.169	1	7.52	39	—	—	5.57	23	12.17	39	.92	10
Cornwall	1,406	21	21.23	41	4.00	34	1.307	23	3.30	18	.389	15	12.23	42	5.35	17	9.55	43
Cobourg	1,365	22	19.00	34	3.43	27	1.163	21	7.53	40	.403	16	6.48	32	12.18	40	1.818	20
Orillia Twp.	1,294	23	15.00	21	3.146	18	.260	3	6.09	36	.157	6	5.35	20	9.85	33	1.58	17
Charlotteville Twp.	1,290	24	21.15	40	3.00	12	1.143	19	9.39	41	—	—	7.62	36	16.03	41	1.817	19
Streetsville	1,267	25	8.12	5	3.083	15	.706	8	1.86	6	1.092	25	1.38	2	3.01	6	.23	3
Hillier Twp.	1,264	26	15.58	25	3.084	16	—	—	6.04	35	—	—	6.45	31	9.78	32	2.72	30
Belleville	1,227	27	15.01	22	4.020	35	1.551	26	2.97	15	.244	11	6.23	30	4.80	15	4.14	35
Sudbury	1,220	28	19.29	35	3.214	22	4.076	39	5.71	32	.639	21	5.66	24	9.23	29	1.91	21
Delaware Twp.	1,153	29	17.68	31	2.98	11	4.029	38	5.31	29	.027	1	5.33	19	11.74	38	2.05	23
Woolwich Twp.	1,145	30	12.97	12	3.34	26	.180	2	5.34	30	—	—	4.11	15	8.64	28	.81	8
Arnprior	1,137	31	12.86	11	3.208	21	1.751	29	3.31	19	.842	23	3.74	12	5.36	18	1.70	18
Colborne	1,122	32	9.71	6	2.96	10	2.412	34	1.75	5	—	—	2.60	6	2.83	5	1.52	16
Wilmot Twp.	1,116	33	13.47	15	3.292	25	.468	5	5.62	31	—	—	4.08	14	9.34	30	.61	5
Atikokan Twp.	1,075	34	17.70	32	2.52	5	3.526	36	5.80	33	.078	3	5.77	25	9.39	31	2.075	24
Sturgeon Falls	976	35	21.13	39	2.18	3	.735	9	7.12	37	—	—	11.09	41	11.53	36	6.49	41
Plantagenet S. Twp.	922	36	20.23	37	3.05	14	4.138	40	7.23	38	—	—	5.81	27	11.70	37	1.34	15
Timmins	886	37	17.78	33	2.73	6	2.118	32	4.26	25	.183	8	8.48	38	6.89	25	5.53	39
Springfield	862	38	7.89	4	3.152	19	1.162	20	1.89	7	.033	2	1.65	4	3.06	7	.48	4
Powassan	813	39	5.83	1	1.95	1	1.195	22	1.54	2	—	—	1.14	1	2.50	2	.19	2
Wellesley	794	40	6.36	2	2.87	8	—	—	2.07	10	—	—	1.43	3	3.34	10	.15	1
Cumberland Twp.	741	41	16.06	28	3.13	17	1.111	18	6.01	34	—	—	5.80	26	10.84	35	2.083	25
Massey	706	42	7.22	3	2.10	2	.827	13	.61	1	—	—	3.69	10	.98	1	3.29	32
Teck Twp.	645	43	13.42	14	2.51	4	1.700	27	2.11	11	.090	5	7.03	34	3.41	11	5.11	36
Coefficient			Rr = −.15		Rr = −.63		Rr = +.22		Rr = −.02		Rr = −.36		Rr = −.13		Rr = −.03		Rr = −.12	

PROVINCIAL GRANTS AND TAXABLE ASSESSMENT

Table 4:5 presents a ranking of our total sample of municipalities according to equalized taxable assessment per capita and provincial grants per capita. The Table ranks municipalities in inverse order, so that the municipality with the highest equalized taxable assessment per capita receives the rank of 1 and the municipality with the lowest grants per capita receives the rank of 1. The ranking hypothesis is accordingly that provincial grants have a redistributive effect, that they will favour municipalities with low taxable capacity over municipalities with higher taxable capacity. Thus a perfect relationship would entail that the municipality with the highest assessment per capita would receive the lowest grants per capita, that the municipality with the second highest assessment per capita would receive the second lowest grants per capita and so on, down to the municipality with the lowest assessment per capita which would receive the highest grants per capita. In terms of our coefficients of rank correlation, this relationship would be registered by a value of +1.00. On the other hand, a coefficient of —1.00 would indicate that grants per capita rose consistently with assessment per capita. Values that approach +1.00 will accordingly register the strength of any tendency on the part of grants to favour municipalities with low assessments, and those that approach —1.00 will record the strength of any reverse drift to favour the more affluent entities.

In addition to the record for total grants (column II), Table 4:5 presents rankings similar to those of Table 4:1 for unconditional grants (column III), highway grants (column VIII) and welfare grants (column IX). Furthermore, since the rank comparisons of Table 4:5 are only to equalized taxable assessment and do not require reference to municipal expenditure (thereby avoiding the accounting difficulties already mentioned), the Table incorporates separate rankings for optional and mandatory grants. Thus column IV tabulates all optional grants of a miscellaneous nature, including those for non-mandatory health, welfare and environmental services; column V ranks the optional highway grants for construction; column VI the optional grants made through the Department of Municipal Affairs (including winter works); and column VII presents a ranking for all remaining, and accordingly mandatory, grants. Tables 4:6, 4:7 and 4:8 respectively break the sample down into cities, towns and villages, and townships.

Beginning with the grant categories previously analysed in Table 4:1—i.e., total grants, unconditional grants, construction and maintenance grants for highways, and welfare grants—the following coefficients of rank correlation appear. For total grants, a coefficient of —0.15 for the over-all sample indicates that there exists no tendency for grant receipts per capita to rise or decline as assessment per capita decreases; if anything, wealthier municipalities may benefit slightly more than the less affluent. For individual municipal categories, the returns are inconsistent. Total grants may have a slightly redistributive effect among cities (+0.38, Table 4:6), but appear to favour the municipalities with higher taxable capacity among towns and villages (—0.58, Table 4:7) and townships (—0.34, Table 4:8). Unconditional grants, at least in the over-all sample, reveal an appreciable tendency to favour the more affluent municipalities (—0.63); this

TABLE 4:6

Grants per Capita and Equalized Taxable Assessment per Capita: Cities

	I		II		III		IV		V		VI		VII		VIII		IX	
							Re: Optional Services											
Municipality	*E. T. A. per cap.*	*Rank*	*Total grants*	*Rank*	*Uncondi-tional grants*	*Rank*	*Miscel-laneous grants*	*Rank*	*Highways grants*	*Rank*	*Municipal affairs grants*	*Rank*	*Balance*	*Rank*	*Highways and public works grants*	*Rank*	*Welfare grants*	*Rank*
Oshawa	$2,176	1	$13.89	4	$3.94	5	$ .628	2	$3.86	13	$ .407	9	$ 5.05	5	$6.24	13	$ 2.69	8
Sault Ste Marie	2,170	2	14.78	7	2.93	1	.917	6	5.05	16	.480	11	5.40	7	8.17	16	2.23	6
Hamilton	2,160	3	16.90	13	3.58	3	.736	3	2.942	6	1.704	15	7.94	15	4.7597	6	5.13	13
Ottawa	2,045	4	14.53	6	4.38	17	.738	4	3.15	8	.429	10	5.83	10	6.04	12	3.91	11
Kitchener	2,014	5	10.67	1	3.84	4	1.056	8	2.941	5	.167	1	2.66	1	4.7596	5	.80	1
Windsor	1,916	6	19.89	15	4.25	15	2.274	15	1.71	1	2.715	16	8.95	16	2.76	1	7.72	16
Welland	1,866	7	14.87	8	3.984	8	.748	5	3.70	12	.336	7	6.10	11	5.99	11	3.42	10
Brantford	1,863	8	13.31	3	4.021	11	1.441	10	3.37	11	.297	5	4.17	4	5.46	10	2.09	5
Sarnia	1,824	9	20.72	16	4.03	12	1.768	14	2.27	4	9.179	17	3.47	3	3.67	4	1.94	4
Guelph	1,740	10	11.73	2	3.95	6	.570	1	3.29	9	.864	14	3.05	2	5.33	8	.96	2
London	1,683	11	16.09	12	4.19	14	2.440	16	4.00	14	.207	2	5.25	6	6.47	14	2.65	7
Peterborough	1,613	12	14.27	5	3.980	7	1.459	11	1.93	2	.230	3	6.67	13	3.12	2	5.42	14
Kingston	1,478	13	15.15	10	4.12	13	1.051	7	1.97	3	.718	13	7.29	14	3.19	3	5.59	15
St. Catharines	1,464	14	15.89	11	4.26	16	1.750	13	4.05	15	.315	6	5.52	8	6.55	15	2.89	9
Cornwall	1,406	15	21.23	17	4.00	9	1.307	9	3.30	10	.389	8	12.23	17	5.35	9	9.55	17
Belleville	1,227	16	15.01	9	4.020	10	1.551	12	2.97	7	.244	4	6.23	12	4.80	7	4.14	12
Sudbury	1,220	17	19.29	14	3.214	2	4.076	17	5.71	17	.639	12	5.66	9	9.23	17	1.91	3
Coefficient			Rr=+.38		Rr=+.22		Rr=+.59		Rr=+.06		Rr=−.19		Rr=+.25		Rr=+.0025		Rr=+.14	

Table 4:7

Grants per Capita and Equalized Taxable Assessment per Capita: Towns and Villages

	I		II		III		IV		V		VI		VII		VIII		IX	
							Re: Optional Services											
Municipality	*E. T. A. per cap.*	*Rank*	*Total grants*	*Rank*	*Uncondi-tional grants*	*Rank*	*Miscel-laneous grants*	*Rank*	*Highways grants*	*Rank*	*Municipal affairs grants*	*Rank*	*Balance*	*Rank*	*Highways and public works grants*	*Rank*	*Welfare grants*	*Rank*
Chippawa	$2,241	1	$12.49	8	$3.02	7	$ .401	1	$ 4.95	10	$ .089	2	$ 4.03	9	$ 8.01	10	$ .99	6
Thedford	1,759	2	10.58	7	5.06	12	2.002	9	1.72	3	—	—	1.80	5	2.78	3	.74	5
Cobourg	1,365	3	19.00	11	3.43	11	1.163	6	7.53	12	.403	4	6.48	10	12.18	12	1.818	9
Streetsville	1,267	4	8.12	5	3.083	8	.706	2	1.86	5	1.092	6	1.38	2	3.01	5	.23	3
Arnprior	1,137	5	12.86	9	3.208	10	1.751	8	3.31	8	.842	5	3.74	8	5.36	8	1.70	8
Colborne	1,122	6	9.71	6	2.96	6	2.412	11	1.75	4	—	—	2.60	6	2.83	4	1.52	6
Sturgeon Falls	976	7	21.13	12	2.18	3	.735	3	7.12	11	—	—	11.09	12	11.53	11	6.49	12
Timmins	886	8	17.78	10	2.73	4	2.118	10	4.26	9	.183	3	8.48	11	6.89	9	5.53	11
Springfield	862	9	7.89	4	3.152	9	1.162	5	1.89	6	.033	1	1.65	4	3.06	6	.48	4
Powassan	813	10	5.83	1	1.95	1	1.195	7	1.54	2	—	—	1.14	1	2.50	2	.19	2
Wellesley	794	11	6.36	2	2.87	5	—	—	2.07	7	—	—	1.43	3	3.34	7	.15	1
Massey	706	12	7.22	3	2.10	2	.827	4	.61	1	—	—	3.69	7	.98	1	3.29	10
Coefficient			Rr=−.58		Rr=−.71		Rr=+.14		Rr=−.41		Rr−NA		Rr=−.27		Rr=−.41		Rr=−.07	

TABLE 4:8

Grants per Capita and Equalized Taxable Assessment per Capita: Townships

	I		II		III		IV		V		VI		VII		VIII		IX	
							Re: Optional Services											
Municipality	*E. T. A. per cap.*	*Rank*	*Total grants*	*Rank*	*Uncondi-tional grants*	*Rank*	*Miscel-laneous grants*	*Rank*	*Highways grants*	*Rank*	*Municipal affairs grants*	*Rank*	*Balance*	*Rank*	*Highways and public works grants*	*Rank*	*Welfare*	*Rank*
Carden Twp.	$2,402	1	$40.89	14	$3.290	12	—	—	$22.66	14	—	—	$14.93	14	$36.67	14	$ .90	3
Maidstone Twp.	1,479	2	15.51	5	3.22	11	3.849	10	4.32	2	.417	5	3.71	1	10.70	7	1.04	5
Greenock Twp.	1,449	3	27.90	13	3.19	10	.889	5	14.06	13	—	—	9.76	13	22.75	13	1.07	6
Goderich Twp.	1,447	4	16.02	7	2.76	3	.169	1	7.52	11	—	—	5.57	6	12.17	11	.92	4
Orillia Twp.	1,294	5	15.00	4	3.146	9	.260	3	6.09	9	.157	4	5.35	5	9.85	6	1.58	8
Charlotteville Twp.	1,290	6	21.15	12	3.00	5	1.143	7	9.39	12	—	—	7.62	12	16.03	12	1.817	9
Hillier Twp.	1,264	7	15.58	6	3.084	7	—	—	6.04	8	—	—	6.45	10	9.78	5	2.72	13
Delaware Twp.	1,153	8	17.68	9	2.98	4	4.029	11	5.31	3	.027	1	5.33	4	11.74	10	2.05	10
Woolwich Twp.	1,145	9	12.97	1	3.34	14	.180	2	5.34	4	—	—	4.11	3	8.64	2	.81	2
Wilmot Twp.	1,116	10	13.47	3	3.292	13	.468	4	5.62	5	—	—	4.08	2	9.34	3	.61	1
Atikokan Twp.	1,075	11	17.70	10	2.52	2	3.526	9	5.80	6	.078	2	5.77	7	9.39	4	2.075	11
Plantagenet S. Twp.	922	12	20.23	11	3.05	6	4.138	12	7.23	10	—	—	5.81	9	11.70	9	1.34	7
Cumberland Twp.	741	13	16.06	8	3.13	8	1.111	6	6.01	7	—	—	5.80	8	10.84	8	2.083	12
Teck Twp.	645	14	13.42	2	2.51	1	1.700	8	2.11	1	.090	3	7.03	11	3.41	1	5.11	14
Coefficient			Rr=−.34		Rr=−.38		Rr=+.27		Rr=−.49		Rr−NA		Rr=−.09		Rr=−.62		Rr=+.48	

tendency is also borne out in the separate rankings for towns and villages (—0.71), and townships (—0.38). Among cities, on the other hand, there exists a very slight tendency for higher unconditional grants per capita to accrue to municipalities with lower taxable capacity (+0.22). Turning to highways and public works grants, the drift is unquestionably toward no relationship whatever between grants per capita and assessment per capita, witness coefficients of —0.03 for the over-all sample and +0.0025 for cities. The separate rankings for towns and villages (—0.41) and townships (—0.62) reveal some tendency for these grants to favour those entities with larger tax bases. A general absence of any relationship between grants and assessment also appears strongly in the domain of welfare where the coefficients for the over-all sample, for cities and for towns and villages are respectively —0.12, +0.14 and —0.07. The township sample, with a coefficient of +0.48, alone indicates any kind of tendency, one whereby welfare receipts per capita favour those entities with lower assessments per capita.

The pattern displayed when grants are divided by optional or mandatory provisions does not differ greatly from the record reviewed so far. Among optional grants, over-all sample coefficients of +0.22 (miscellaneous), —0.02 (highway construction) and —0.36 (municipal affairs), point to the rough conclusion that there is little in the way of a perceptible relationship between optional grants and assessment. Put another way, municipalities with higher taxable capacities do not or cannot necessarily exploit the advantages of their position to provide optional grant-aided services. As to grants tied to mandatory functions (—0.13), it is again impossible to detect a meaningful relationship. Breakdowns of the sample by municipal category shed no additional light on the question of either mandatory or optional services.

A comparison of grants per capita and equalized taxable assessment per capita, then, yields almost nothing in the way of relationships indicating that grants favour either indigent or affluent municipalities. If anything, unconditional grants tend to accrue to municipalities with higher assessments per capita; for the rest, no consistently significant correlation appears.

Provincial Grants, the Municipal Levy and Taxable Assessment

We have so far sought the presence or absence of meaningful relations between provincial grants and local expenditure and between grants and taxable capacity. We have noted some tendency for grants per capita to rise with expenditure per capita but no particular relation between grants per capita and equalized taxable assessment per capita. The exercise on which we now embark attempts to find a relationship between grants and assessment from a different perspective. Grants can be viewed as a supplement to municipal revenue, in the sense that they are not derived from the local tax base. We can measure the size of this supplement in relation to municipal tax revenue by calculating the number of cents contributed by the Province for every dollar of taxes raised from municipal property. We can then rank municipalities according to this measure, and compare the results with municipal rank in terms of equalized taxable assessment per capita.

The results appear in Table 4:9. Here, as in Table 4:5, our sample is ranked in descending order of equalized taxable assessment per capita. The ranking of grants received per dollar of general (i.e. excluding school) levy, on the other hand, is in ascending order. Thus the ranking hypothesis is that as equalized taxable assessment goes down, grants expressed in terms of their relation to each dollar of general levy will go up.

Table 4:9 features a breakdown of grants to general levy identical with the categories used in Table 4:5. These are total grants (column II); unconditional grants (column III); optional grants subdivided into health, welfare and miscellaneous (column IV), highways (column V) and municipal affairs (column VI); mandatory grants (column VII); total highways (column VIII); and total welfare (column IX). Tables 4:10, 4:11 and 4:12 rank municipalities by status—cities, towns and villages, and townships, respectively.

Recalling that, given our ranking, coefficients of correlation whose value approaches +1.00 indicate that grants per dollar of levy increase as taxable assessment decreases and coefficients approaching —1.00 indicate the reverse, we note that Table 4:9 records a few somewhat meaningful relationships. As to total grants, the coefficient for the over-all sample of +0.44 reveals that grants per dollar of general levy do indeed tend to rise as taxable assessment drops. The same tendency carries over into the separate ranking for cities (+0.60) and towns and villages (+0.41); townships, however, indicate a reverse trend (—0.47). Unconditional grants, for their part, show a more consistent and slightly stronger tendency to rise in proportion to the general levy as assessment goes down (witness coefficients of +0.58 for the sample, +0.65 for cities, +0.51 for towns and villages, but only +0.11 for townships.). Among the optional services, an identical tendency appears in the over-all sample for health, welfare and miscellaneous grants, and for highway grants (+0.59 and +0.31). Optional municipal affairs grants, however, reveal no meaningful relationship—if any, a slight tendency to increase as a portion of local levy among wealthier municipalities. The tendencies that optional grants register in the over-all sample generally carry over into the municipal breakdown, although townships offer a strong exception in the case of highways. As to the balance of grants tabulated in column VII, made up of all conditional grants for mandatory purposes, the over-all sample, with a coefficient of +0.35, indicates that here too there may exist a moderate tendency for these, when expressed as a portion of the levy, to rise as assessment declines. Once again the municipal breakdowns for cities and for towns and villages lean in the same direction while townships constitute an exception. Finally we come to the total grants, optional and mandatory, for highways and welfare. Highway grants as a portion of general levy indicate a slight tendency to rise as assessment declines (+0.30), but since the relation is extremely weak for cities (+0.13), non-existent for towns and villages (—0.06) and reversed for townships (—0.61), the sample tendency itself may be somewhat suspect. As to welfare, there exists a very slight but at least consistent tendency for grants as a portion of levy to rise with assessment.

TABLE 4:9

Grants per Dollar of General Levy and Equalized Taxable Assessment per Capita

	I		II		III		IV		V		VI		VII		VIII		IX	
			Grants per Dollar of General Levy															
							Re: Optional Services											
Municipality	E. T. A. per cap.	Rank	Total grants	Rank	Unconditional grants	Rank	Miscellaneous grants	Rank	Highways grants	Rank	Municipal affairs grants	Rank	Balance	Rank	Highways and public works grants	Rank	Welfare grants	Rank
Carden Twp.	$2,402	1	$.825	43	$.066	16	—	—	$.457	43	—	—	$.301	43	$.740	43	$.01816	7
Chippawa	2,241	2	.234	11	.0566	8	$.0075	3	.093	26	$.0017	3	.076	12	.150	26	.01845	8
Oshawa	2,176	3	.172	2	.049	4	.0078	4	.048	10	.00504	12	.063	9	.077	10	.0333	19
Sault Ste Marie	2,170	4	.193	6	.038	1	.0120	8	.066	22	.0063	16	.070	11	.107	21	.029	14
Hamilton	2,160	5	.209	8	.044	2	.0091	6	.036	7	.0210	25	.098	18	.059	7	.063	31
Ottawa	2,045	6	.274	19	.0828	30	.0139	10	.059	16	.0081	18	.110	20	.114	22	.074	33
Kitchener	2,014	7	.165	1	.059	11	.0163	12	.04547	9	.0026	5	.041	3	.074	9	.01235	5
Windsor	1,916	8	.246	16	.053	5	.02811	23	.021	1	.0336	27	.111	21	.034	1	.0955	38
Welland	1,866	9	.250	17	.0670	17	.0126	9	.0623	19	.0057	14	.103	19	.101	18	.058	28
Brantford	1,863	10	.179	4	.054	6	.0193	15	.0452	8	.0040	9	.056	8	.073	8	.0281	13
Sarnia	1,824	11	.299	22	.058	10	.0255	20	.033	6	.1323	28	.050	6	.053	6	.0279	12
Thedford	1,759	12	.174	3	.0834	31	.0330	27	.0283	3	—	—	.030	1	.046	3	.01215	4
Guelph	1,740	13	.183	5	.062	13	.0089	5	.051	12	.0135	22	.04745	5	.083	12	.01500	6
London	1,683	14	.243	15	.063	14	.0368	28	.060	17	.00312	7	.07928	14	.098	16	.0401	21
Peterborough	1,613	15	.205	7	.0571	9	.0209	17	.0277	2	.0033	8	.096	17	.045	2	.078	35
Maidstone Twp.	1,479	16	.622	40	.129	40	.1542	40	.173	35	.0167	24	.149	28	.429	40	.0417	23
Kingston	1,478	17	.238	13	.065	15	.0165	13	.031	5	.0113	20	.11426	23	.050	5	.087	36
St. Catharines	1,464	18	.256	18	.069	19	.02814	24	.0651	21	.0051	13	.089	16	.105	20	.047	26
Greenock Twp.	1,449	19	.666	41	.076	25	.0212	18	.336	42	—	—	.2330	39	.543	42	.0255	10
Goderich Twp.	1,447	20	.518	36	.08921	34	.0055	1	.2432	40	—	—	.180	33	.393	38	.0297	17
Cornwall	1,406	21	.397	25	.0748	23	.0245	19	.0618	18	.0073	17	.229	37	.100	17	.179	43
Cobourg	1,365	22	.4308	28	.078	26	.0264	21	.1707	33	.0091	19	.147	27	.276	32	.0412	22
Orillia Twp.	1,294	23	.575	38	.121	38	.0100	7	.233	38	.0060	15	.205	36	.378	36	.0607	29
Charlotteville Twp.	1,290	24	.511	35	.073	21	.0276	22	.227	37	—	—	.184	35	.388	37	.044	24
Streetsville	1,267	25	.212	9	.080	27	.0184	14	.049	11	.0284	26	.036	2	.079	11	.0060	2
Hillier Twp.	1,264	26	.411	27	.0814	29	—	—	.1595	32	—	—	.170	31	.258	31	.071	32
Belleville	1,227	27	.275	20	.074	22	.0284	25	.054	14	.0045	10	.11408	22	.088	14	.076	34
Sudbury	1,220	28	.405	26	.0674	18	.0855	36	.120	28	.0134	21	.119	24	.194	28	.03998	20
Delaware Twp.	1,153	29	.528	37	.08916	33	.1204	39	.1586	31	.0008	1	.159	30	.351	35	.0613	30
Woolwich Twp.	1,145	30	.474	32	.122	39	.0066	2	.195	36	—	—	.150	29	.316	34	.0296	16
Arnprior	1,137	31	.224	10	.056	7	.0305	26	.058	15	.0147	23	.065	10	.093	15	.0295	15
Colborne	1,122	32	.296	21	.090	35	.0735	35	.053	13	—	—	.07906	13	.086	13	.0461	25
Wilmot Twp.	1,116	33	.581	39	.14205	41	.0202	16	.2426	39	—	—	.176	32	.403	39	.0262	11
Atikokan Twp.	1,075	34	.4313	29	.061	12	.0859	37	.141	29	.0019	4	.141	26	.229	29	.051	27
Sturgeon Falls	976	35	.446	30	.046	3	.0155	11	.150	30	—	—	.234	40	.243	30	.137	39
Plantagenet S. Twp.	922	36	.478	33	.072	20	.0979	38	.1709	34	—	—	.137	25	.277	33	.0317	18
Timmins	886	37	.487	34	.0750	24	.0581	34	.117	27	.00503	11	.23255	38	.189	27	.152	40
Springfield	862	38	.383	24	.153	43	.0565	32	.092	25	.0016	2	.080	15	.149	25	.023	9
Powassan	813	39	.241	14	.0807	28	.0494	30	.0638	20	—	—	.04720	4	.103	19	.0077	3
Wellesley	794	40	.236	12	.106	37	—	—	.077	24	—	—	.053	7	.124	24	.0056	1
Cumberland Twp.	741	41	.729	42	.14207	42	.0505	31	.273	41	—	—	.263	42	.492	41	.0946	37
Massey	706	42	.358	23	.104	36	.0410	29	.030	4	—	—	.183	34	.049	4	.163	41
Teck Twp.	645	43	.455	31	.085	32	.0577	33	.072	23	.00306	6	.238	41	.116	23	.1735	42
Coefficient			Rr=+.44		Rr=+.58		Rr=+.59		Rr=+.31		Rr=−.19		Rr=+.35		Rr=+.30		Rr=+.21	

TABLE 4:10

Grants per Dollar of General Levy and Equalized Taxable Assessment per Capita: Cities

	I		Grants per Dollar of General Levy															
	I		II		III		IV		V		VI		VII		VIII		IX	
							Re: Optional Services											
Municipality	E. T. A. per cap.	Rank	Total grants	Rank	Unconditional grants	Rank	Miscellaneous grants	Rank	Highways grants	Rank	Municipal affairs grants	Rank	Balance	Rank	Highways and public works grants	Rank	Welfare grants	Rank
Oshawa	$2,176	1	$ .172	2	$ .049	3	$.0078	1	$ .048	8	$.00504	6	$ .063	5	$ .077	8	$.0333	6
Sault Ste Marie	2,170	2	.193	5	.038	1	.0120	4	.066	16	.0063	9	.070	6	.107	15	.029	5
Hamilton	2,160	3	.209	7	.044	2	.0091	3	.036	5	.0210	15	.098	10	.059	5	.063	11
Ottawa	2,045	4	.274	13	.0828	17	.0139	6	.059	11	.0081	11	.110	12	.114	16	.074	12
Kitchener	2,014	5	.165	1	.059	8	.0163	7	.04547	7	.0026	1	.041	1	.074	7	.01235	1
Windsor	1,916	6	.246	10	.053	4	.02811	13	.021	1	.0336	16	.111	13	.034	1	.0955	16
Welland	1,866	7	.250	11	.0670	12	.0126	5	.0623	14	.0057	8	.103	11	.101	13	.058	10
Brantford	1,863	8	.179	3	.054	5	.0193	9	.0452	6	.0040	4	.056	4	.073	6	.0281	4
Sarnia	1,824	9	.299	15	.058	7	.0255	12	.033	4	.1323	17	.050	3	.053	4	.0279	3
Guelph	1,740	10	.183	4	.062	9	.0089	2	.051	9	.0135	14	.04745	2	.083	9	.01500	2
London	1,683	11	.243	9	.063	10	.0368	16	.060	12	.00312	2	.07928	7	.098	11	.0401	8
Peterborough	1,613	12	.205	6	.0571	6	.0209	10	.0277	2	.0033	3	.096	9	.045	2	.078	14
Kingston	1,478	13	.238	8	.065	11	.0165	8	.031	3	.0113	12	.11426	15	.050	3	.087	15
St. Catharines	1,464	14	.256	12	.069	14	.02814	14	.0651	15	.0051	7	.089	8	.105	14	.047	9
Cornwall	1,406	15	.397	16	.0748	16	.0245	11	.0618	13	.0073	10	.229	17	.100	12	.179	17
Belleville	1,227	16	.275	14	.074	15	.0284	15	.054	10	.0045	5	.11408	14	.088	10	.076	13
Sudbury	1,220	17	.405	17	.0674	13	.0855	17	.120	17	.0134	13	.119	16	.194	17	.0399	7
Coefficient			Rr=+.60		Rr=+.65		Rr=+.74		Rr=+.21		Rr=−.05		Rr=+.49		Rr=+.13		Rr=+.32	

Table 4:11

Grants per Dollar of General Levy and Equalized Taxable Assessment per Capita: Towns and Villages

			Grants per Dollar of General Levy															
	I		II		III		IV		V		VI		VII		VIII		IX	
							Re: Optional Services											
Municipality	*E. T. A. per cap.*	*Rank*	*Total grants*	*Rank*	*Unconditional grants*	*Rank*	*Miscellaneous grants*	*Rank*	*Highways grants*	*Rank*	*Municipal affairs grants*	*Rank*	*Balance*	*Rank*	*Highways and public works grants*	*Rank*	*Welfare grants*	*Rank*
Chippawa	$2,241	1	$.234	4	$.0566	3	$.0075	1	$.093	9	$.0017	2	$.076	6	$.150	9	$.01845	5
Thedford	1,759	2	.174	1	.0834	8	.0330	6	.0283	1	—	—	.030	1	.046	1	.01215	4
Cobourg	1,365	3	.4308	10	.078	5	.0264	4	.1707	12	.0091	4	.147	9	.276	12	.0412	8
Streetsville	1,267	4	.212	2	.080	6	.0184	3	.049	3	.0284	6	.036	2	.079	3	.0060	2
Arnprior	1,137	5	.224	3	.056	2	.0305	5	.058	5	.0147	5	.065	5	.093	5	.0295	7
Colborne	1,122	6	.296	7	.090	9	.0735	11	.053	4	—	—	.07906	7	.086	4	.0461	9
Sturgeon Falls	976	7	.446	11	.046	1	.0155	2	.150	11	—	—	.234	12	.243	11	.137	10
Timmins	886	8	.487	12	.0750	4	.0581	10	.117	10	.00503	3	.23255	11	.189	10	.152	11
Springfield	862	9	.383	9	.153	12	.0565	9	.092	8	.0016	1	.080	8	.149	8	.023	6
Powassan	813	10	.241	6	.0807	7	.0494	8	.0638	6	—	—	.04720	3	.103	6	.0077	3
Wellesley	794	11	.236	5	.106	11	—	—	.077	7	—	—	.053	4	.124	7	.0056	1
Massey	706	12	.358	8	.104	10	.0410	7	.030	2	—	—	.183	10	.049	2	.163	12
Coefficient			Rr=+.41		Rr=+.51		Rr=+.58		Rr=−.06		Rr—NA		Rr=+.29		Rr=−.06		Rr=+.17	

TABLE 4:12

Grants per Dollar of General Levy and Equalized Taxable Assessment per Capita: Townships

	I		II		III		IV		V		VI		VII		VIII		IX	
			Grants per Dollar of General Levy															
							Re: Optional Services											
Municipality	*E. T. A. per cap.*	*Rank*	*Total grants*	*Rank*	*Unconditional grants*	*Rank*	*Miscellaneous grants*	*Rank*	*Highways grants*	*Rank*	*Municipal affairs grants*	*Rank*	*Balance*	*Rank*	*Highways and public works grants*	*Rank*	*Welfare grants*	*Rank*
Carden Twp........	$2,402	1	$.825	14	$.066	2	—	—	$.457	14	—	—	$.301	14	$.740	14	$.01816	1
Maidstone Twp.....	1,479	2	.622	11	.129	12	$.1542	12	.173	6	$.0167	5	.149	3	.429	11	.0417	7
Greenock Twp.....	1,449	3	.666	12	.076	5	.0212	5	.336	13	—	—	.2330	11	.543	13	.0255	2
Goderich Twp......	1,447	4	.518	7	.08921	9	.0055	1	.2432	11	—	—	.180	8	.393	9	.0297	5
Orillia Twp........	1,294	5	.575	9	.121	10	.0100	3	.233	9	.0060	4	.205	10	.378	7	.0607	10
Charlotteville Twp..	1,290	6	.511	6	.073	4	.0276	6	.227	8	—	—	.184	9	.388	8	.044	8
Hillier Twp........	1,264	7	.411	1	.0814	6	—	—	.1595	4	—	—	.170	6	.258	3	.071	12
Delaware Twp......	1,153	8	.528	8	.08916	8	.1204	11	.1586	3	.0008	1	.159	5	.351	6	.0613	11
Woolwich Twp.....	1,145	9	.474	4	.122	11	.0066	2	.195	7	—	—	.150	4	.316	5	.0296	4
Wilmot Twp.......	1,116	10	.581	10	.14205	13	.0202	4	.2426	10	—	—	.176	7	.403	10	.0262	3
Atikokan Twp......	1,075	11	.4313	2	.061	1	.0859	9	.141	2	.0019	2	.141	2	.229	2	.051	9
Plantagenet S. Twp..	922	12	.478	5	.072	3	.0979	10	.1709	5	—	—	.137	1	.277	4	.0317	6
Cumberland Twp...	741	13	.729	13	.14207	14	.0505	7	.273	12	—	—	.263	13	.492	12	.0946	13
Teck Twp.........	645	14	.455	3	.085	7	.0577	8	.072	1	.00306	3	.238	12	.116	1	.1735	14
Coefficient........................			Rr=−.47		Rr=+.11		Rr=+.18		Rr=−.52		Rr—NA		Rr=−.17		Rr=−.61		Rr=+.55	

Before reviewing our findings in summary form, we should pause to dispel any possible misinterpretation of a measure that expresses grants as a proportion of the general levy. Taken at face value, the measure expresses how much provincial revenue any given municipality realizes in relation to its tax levy. In and of itself, the measure tells us nothing about grants in relation to tax effort. A municipality could theoretically make a considerable tax effort and show very low grant receipts per dollar of taxation; conversely, a municipality might theoretically levy low taxes and show a very high level of grant income per dollar raised locally. This is in part because a good deal depends on the extent to which a municipality emphasizes grant-aided services. Hence it must be clearly understood that our measure is simply an index of the relative extent to which provincial grants supplement local taxes. Viewed in this light, our findings are that the relative size of the revenue supplement created by total grants tends to rise as assessment declines, that the size of the supplement due to unconditional grants alone shows a similar, and indeed slightly stronger, tendency, and that all remaining (and hence conditional) grants, save perhaps highways, again tend to favour the less affluent municipalities, but to a not very meaningful extent.

ONTARIO GRANTS AND MUNICIPAL FINANCE

The statistical sketch that is now completed is hardly exhaustive. It has simply represented an attempt to seek out some glimmer of the realities of Ontario municipal finance, realities beyond the grasp of a study limited in scope and time. That these realities are reflected in our findings with any degree of accuracy is probable, but that probability is no greater than the soundness of our basic data. These data in turn are no better than the actual techniques of municipal and provincial accounting now in use, and these techniques certainly place the researcher who would make intermunicipal comparisons, or even provincial-municipal comparisons, at something of a disadvantage.

Circumscribed as they are by the above, our findings can be read as follows. The aggregate of grants that Ontario makes to municipal governments reveals a slight tendency, when measured in per-capita terms, to rise with expenditure per capita. However, the same per-capita aggregate has no relation to equalized assessment per capita; if anything, total grants favour municipalities with higher assessment. But viewed as a supplement to tax revenue, total grants do tend to be a larger item in the budget of municipalities with low taxable capacity than in those with high taxable capacity.

Unconditional grants per capita have a similar and perhaps slightly closer relationship to expenditure per capita than aggregate grants, though cities are an important exception. Unconditional grants seem to favour municipalities with high assessments per capita, but when expressed as a portion of general levy they favour localities with lower assessments per capita.

Grants for the construction and maintenance of highways show a decided tendency to be high in municipalities with high expenditure per capita, in part because of auto-correlation. However, they bear no perceptible relation to assessment per capita, save that they may favour the more affluent towns, villages and

townships. Viewed as a portion of the municipal levy, these grants may have a slight tendency to favour localities with lower assessments per capita.

Welfare grants in relation to expenditure per capita yielded the highest coefficients in our study, but again the results doubtless reflect auto-correlation. On a per-capita basis, welfare grants may perhaps accrue in somewhat larger amounts to the poorer municipalities, but as a portion of the general levy they show no relation to taxable capacity.

A classification of conditional grants that attempts to take account of the optional or mandatory nature of the aided service unfortunately does not lend itself to comparison with expenditure per capita, owing to shortcomings in the methods of data collection. When matched on a per-capita basis to assessment, no discernible relationship appears, leading to two conclusions: (1) the more affluent municipalities do not seem to take proportionally greater advantage of grants designed to promote optional services than their poorer counterparts; (2) provincial grants for mandatory services do not lighten the burdens that must be borne by the poorer localities. When analysed as a portion of the general levy, both optional and mandatory grants show a moderate tendency to favour municipalities with inferior fiscal capacity, leaving the first of the above conclusions intact but somewhat mitigating the second.

The results gleaned from separate rankings by municipal status generally conformed to those yielded by the over-all sample. This was particularly true when the value of the sample coefficient was high; deviations when the coefficient approached zero were of course to be expected. In some instances, however, a sample coefficient of appreciable size was contradicted among certain municipal categories. Townships showed the most frequent deviations and cities the least, although among the latter the relation between expenditures per capita and unconditional grants per capita provided a singular exception.

Generally speaking, discernible relationships between Ontario grants and municipal finance are limited. Where they appear, they are likely to be inconsistent, whether among different grant programs, different types of municipality, or both. But this should hardly be surprising. In a setting where any over-all provincial policy toward grants has been conspicuous by its absence, statistical findings that reveal little of real significance have the value of confirming the expected.

CHAPTER 5

Provincial-Municipal Finance: A General Analysis

PROVINCIAL grants to municipalities have so far been tabulated, classified, subjected to statistical manipulation and otherwise abused. This chapter proposes to step back a little from the heat of battle to sort out certain conceptual guides that may prove useful in analysing some outstanding issues in provincial-municipal finance. Initial attention will be called to various criteria that can be of help in determining whether any given governmental function is appropriately provincial, or local, or intergovernmental. There will follow a discussion that will attempt to unravel two key issues in grant policy, one the relative merits of conditional and unconditional grants, the other the problem of intermunicipal revenue disparities. Finally joint occupancy of tax fields and the use of so-called "shared taxes" will be briefly examined and general conclusions drawn.

Provincial or Municipal: The Allocation of Jurisdiction

Grants, as we have pointed out several times in this study, provide a convenient halfway house between distinct jurisdictions. They are a means whereby governmental authority—and responsibility—can be shared in the discharge of certain functions. But it is generally recognized that grants are a means to an imperfect end, imperfect in the sense that the sharing of authority and responsibility is never a wholly adequate substitute for a clear division of jurisdiction that concentrates both decision-making and accountability at a single focal point. This, to be sure, is not to say that separate territorial jurisdictions should never share authority in certain fields of action, but it is to say that should a level of government not possess inescapable and concentrated responsibilities for a number of important duties, it will be lacking one of the basic cornerstones in the foundation of a healthy democracy.

Given the desirability of allocating jurisdictions between levels of government with an appreciable degree of precision, it is not surprising that various criteria have been worked out at various times to enable us to grasp a rough idea of what functions, in the context of provincial-municipal affairs, are properly provincial or properly local, and of what remaining governmental duties might appropriately be shared by the two levels. These criteria can be summarized in the form of the following six questions. First, is the character of any given service preponderantly local or primarily provincial? Second, does the service confer benefits that accrue primarily to property? Third, is the service mandatory or is it provided at the option of the municipality? Fourth, is the nature of the service such that province-wide standards are clearly desirable? Fifth, is the service such that it can only be discharged efficiently if a division exists between financial and administrative

responsibility? Sixth and last, is the service, if provided at the local level, one that is directly under the jurisdiction of the local council or one that is provided by a separate and semi-autonomous local board? Let us discuss these questions in turn.

Local vs. General

The distinction between services that are primarily local and those that are primarily general and hence provincial has become one of the time-honoured favourites in the great music hall of municipal affairs. Like many another music hall favourite, it is a British export that first received official acclaim in the report of the Royal Commission on Local Taxation of 1901.[1] The criterion is sound in theory but weak in practice. Thus one may be able to say that street lighting is primarily of local concern while university education is of general concern, but street pavement and public libraries are not readily subject to classification. A practical application of the local-vs.-general criterion is especially elusive when, as in Ontario, there exist so many municipal units offering extreme variations in size and population. A function deemed "local" for municipalities of 100,000 population may well lie beyond the capacity of a municipality of 1,000, let alone one whose population is below 400.

Benefit to Property

The local-vs.-general criterion can be supplemented, as indeed it was by the same British Royal Commission of 1901, through a second and seemingly more precise standard—one that seeks to determine whether a service confers benefits that relate to property. Especially as municipalities have gradually come to depend on property as their sole source of tax revenue, they have tended to equate the property benefit test with the local-vs.-general standard. Services such as sewerage, water supply, sidewalks, fire and police protection and access roads are said to confer direct benefits on persons as owners or occupants of property, direct in the sense that such services are intimately connected with the value of property. These services are accordingly identified as being primarily of local concern. On the other hand, the welfare, education and recreational functions whose benefits do not accrue visibly to property become those services for which the responsibility should accrue primarily to the Province.

Reasonable though the benefit-to-property test appears at first blush, we should emphasize that it has readily apparent limitations. For one thing, services whose connections to property are close do not necessarily preclude every last shred of provincial responsibility. Sewerage and water supply can become matters for provincial and even national concern if public health becomes affected. And any ten-year-old *aficionado* of organized crime knows that Al Capone's domination of the Chicago Metropolitan Area was greatly abetted by the low standards of police protection in East Cicero, Illinois. Next, certain services which do not confer direct benefits on persons as owners and occupants of property can none the less confer benefits of an indirect nature. A good public library, a fine school system,

[1]Royal Commission on Local Taxation, *Final Report*, Cmd. 638 (London: H.M.S.O., 1901).

beautiful parks and a diversified recreation program certainly enhance the desirability of any given municipality as a location for industrial and residential development. Even welfare programs may be said to have a remote and indirect bearing on property values, or so the dramatic themes of John Gay's seventeenth-century *Beggar's Opera* and of Bertolt Brecht's twentieth-century musical would have us believe. Then too, certain services which, being directly linked to property, might otherwise be of purely local concern, may none the less necessarily involve other levels of government if they are new, complex and untried. Urban redevelopment stands out as a classic example. Finally, there is the point that even services that bear a direct relation to property "are still far from being provided on a *quid pro quo* basis to individual taxpayers".[2] In the last analysis, it is almost invariably true that

> . . . the element of benefit that connects local services and property taxes is one of general benefit to all members of the community rather than one of measured benefit to particular individuals. The element of benefit derives from the direct and personal interest in the amenities of the locality of all those concerned and from the ability of members of the community to adjust the level of the services to their desires without those outside the locality being very much affected. The connection between local services and property taxation stems mainly from local services being of the type best performed by local governments, and from the property tax being the best source of local revenue.[3]

At this juncture, the benefit-to-property criterion begins to lose its apparent precision and to dissolve into a test little different from that posed by the local-vs.-general criterion. But it is well worth noting that the benefit-to-property criterion enjoys considerable vogue among municipal interest groups, which are inclined to apply it as if it were indeed precise. Thus, for instance, the criterion has been cited repeatedly and pointedly by the Association of Ontario Mayors and Reeves. A 1957 submission aptly summarizes the Association's stand. This is that local finance has reached a critical juncture because of "the growing costs to municipalities of services which . . . [do] not have a direct bearing on property. . . . The cost of these services [creates] the burden on the owners of homes and other real property who [are] the people paying the main sources of revenue in taxation at the municipal level."[4] The services concerned, which the Association classifies as "non-basic", are hospitals, health units, school medical and dental services, conservation, drainage aid and flood control, and all welfare services, including general welfare assistance, homes and housing for the aged, children's aid, day nurseries and special projects. The Association accordingly dubs all provincial grants for these functions as "not recognized"[5] and "strongly urges that the entire costs of social and health services be met by the taxing sources of the Federal and Provincial governments".[6]

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[2]John F. Graham, *Fiscal Adjustment and Economic Development* (Toronto, 1963), p. 210.

[3]*Ibid.*, pp. 210-11.

[4]*The Case for the Municipalities of Ontario*, Representations of the Association of Ontario Mayors and Reeves to the Government of the Province of Ontario and to the Government of Canada, January, 1957, p. 6.

[5]*Ibid.*, p. 11.

[6]*Ibid.*, p. 15.

We shall return to problems associated with the application of the benefit-to-property criterion. Suffice it to note for the moment that this criterion is of considerably more than purely academic interest.

Optional vs. Mandatory Services

Distilled to its bare essentials, this criterion holds that municipalities should be provided with tax revenues sufficient to enable them to discharge their mandatory responsibilities with at least minimal effectiveness. Optional services should be eligible either for provincial aid or for transfer to a higher level of government. It is fair to say that the optional-vs.-mandatory criterion is more a restatement of the golden rule of fiscal responsibility than it is an analytical aid. This is because it begs the question of what indeed should be mandatory and what optional, a question that cannot be answered without recourse to other criteria. To complicate matters further, these very criteria may indicate that an optional service is more appropriately local than a mandatory one precisely because the decision to provide this service is best left in local hands.

The Need for Provincial Standards

There exists a reasonable argument to the effect that those functions which are such that disparities in municipal performance are tolerable should be performed entirely at the local level. On the other hand, where service standards are a provincial concern, either financial aid or total assumption by the Province is in order. This criterion is in a way a restatement of its local-vs.-general counterpart. It can be particularly difficult to apply where, as in Ontario, the municipal scene is dotted with so many small entities. The smaller a municipality, the likelier that local service standards are of provincial concern because they have a "spill-over" effect in neighbouring municipalities. This situation is particularly evident in metropolitan or urban regions where, for instance, deficient standards of fire protection in one municipality have obvious implications for others. In such a setting, the need for provincial concern over standards can be argued for almost any service. But assuming a structure of local government in which sizeable municipalities are the rule, the provincial-standards test can yield two important insights. The first is that certain services which, like water and sewerage, are related to property, need not necessarily be exclusively local if minimal provincial standards for reasons of, say, health are desirable. The second, which involves a reverse application of the provincial-standards test, is that there is no reason why service discrepancies should not be tolerated and even encouraged in appropriate instances. There certainly must be a wide margin within which local discretion over service standards should predominate; it would be grossly uneconomical, for example, to maintain in rural municipalities fire departments with all the sophisticated equipment needed in a metropolitan area such as Ottawa.

The Dichotomy between Finance and Administration

Certain services should not be the primary responsibility of local government because they are a matter for provincial or indeed national concern, because they should meet uniform or at least minimal standards and because they have little

relation to property. Yet local government should continue to have a hand in discharging them. The criterion designed to take account of this situation holds that some functions are fundamentally intergovernmental in nature. Financial responsibility should accordingly be exclusively or at least primarily provincial, while administration—the actual delivery of the service—should be local. Not surprisingly, it is the welfare function to which this rule is most frequently applied. Here the necessary funds should be supplied by senior governments, but it is at the grassroots level that needs will supposedly be best understood and that recipients will be dealt with most sympathetically.

Council Responsibility vs. Special Unit Responsibility

Local government in Ontario is hyper-fractionalized. What began as a simple bifurcation of local affairs between municipal councils and school boards has become an intricately compartmentalized phenomenon where Children's Aid Societies, health units, conservation authorities and other bodies vie with each other and with the older local authorities for a place in the sun. All special units of government are essentially spending units, however, and it is on the municipal council that the ultimate burden of levying taxes rests. If any weight is attached to that classic canon of constitutional government, that the taxing entity should also be the spending entity, it seems reasonable to assert that those services whose financing and administration both are the responsibility of the municipal council should be regarded as more eminently local in nature than the rest. Viewed in this light, special-purpose bodies appear less purely local in nature and take on the guise of provincial agents. As K. G. Crawford has pointed out in the context of the Children's Aid Societies, ". . . the municipality merely pays a bill for maintenance of wards which under the legislation are its responsibility. The local discretion in administration, which is most desirable, in this case is exercised by the Society and not by the municipal authorities, and that discretion can be just as effectively exercised by the Society whether the payment comes from a province or a municipality."[7] A criterion that would give to special-purpose bodies a status more quasi-provincial than quasi-local appears to be grounded on much good sense. But it may fly in the face of deficiencies in the municipal structure. To the extent that special-purpose authorities are created simply because existing municipal boundaries are inadequate for efficient municipal performance, they may in fact have responsibilities which, in a proper governmental setting, would be considered local.

Six criteria have now been offered by which to judge whether a function should be purely provincial, purely local or intergovernmental. Doubtless no single criterion offers sufficient ground for clear judgment and all are ambiguous to some degree. This very ambiguity indicates that the provision of certain functions on an intergovernmental basis is not only inevitable but sound. Again, however, a good deal of ambiguity stems not so much from the criteria themselves as from the structure of the municipal institutions to which they are applied. A crazy-quilt pattern of local government based largely on historical happenstance begs questions

[7]K. G. Crawford, *Canadian Municipal Government*, pp. 360-1.

that rational, up-to-date boundaries would resolve. To no small extent, a reasonably clear division of functions between a province and its local authorities hinges on a sound structure of municipal institutions.

Provincial and Municipal: Conditional vs. Unconditional Grants

If the intergovernmental provision of certain services is a reasonable answer even when local institutions are well structured, grant transactions are bound to keep their status as a perennial feature of provincial-municipal relations. Grants, of course, can be conditional or unconditional. While most provincial grant programs have been conditional, unconditional subsidies, a reality of sorts in Ontario since 1937, have come to enjoy a growing vogue among analysts of municipal finance. Perhaps the frequency with which the six criteria just discussed yield imprecise answers to the question of whether a given service is provincial or local argues for the greater flexibility of unconditional grants. Whatever the case, the pro's and con's of unconditional grants merit attention.

Since unconditional grants are a later arrival on the municipal scene than the conditional variety, it is not surprising that arguments in their favour normally begin with a critique of the older form of aid. Conditional grants can be said to dampen local initiative and violate the political precept of local autonomy by inducing municipalities to spend more on the aided function than on other services. Conditional grants, especially if they are of the flat-rate type, may also introduce intermunicipal inequities in that a poor entity may be harder pressed to raise its portion of cost than its more affluent counterparts. Finally, the true effect of conditional grants—whether they in fact constitute an incentive or merely provide a subsidy—is often in doubt. Let us examine these criticisms in turn.

The importance of local autonomy hinges in large part on the assertion that the level of government closest to the people tends to reflect most accurately the peculiar needs and desires of its constituency. Put another way, local government is effective because it closely mirrors the "public interest". But conditional grants, in as much as they apply to designated functions and call for specifically defined standards of performance, exert an influence external to the normal process whereby the local public interest is determined. Flowing as they do from the provincial legislature, they represent concepts of a different "public interest", of what is in the *provincially* rather than the locally determined interest. The point now becomes the following: is a province somehow in a superior position to a municipality when it comes to dictating what will be in the public interest? In a different context, that of federal-provincial relations, Donald V. Smiley has argued effectively that no objective standards exist whereby the observer can judge the relative wisdom of the federal government and the provinces in identifying the public interest.[8] Since the provinces supposedly reflect that combination of interests peculiar to the region over which they have jurisdiction, they may if anything occupy a better position than the federal government from which to determine service priorities. Furthermore, expertise in the discharge of traditionally provincial functions is likely to be greater among provincial than among federal officials. As to the possibility of

[8]Donald V. Smiley, *Conditional Grants and Canadian Federalism* (Toronto, 1963), pp. 48-52.

narrow parochialism prevailing at the provincial level, "the very great number of inter-provincial contacts . . . has demonstrated that provincial agencies are by no means unaware of what is going on outside the geographical limits of their jurisdiction".[9]

If we accept the above and transfer the argument to the provincial-municipal sphere, certain differences come to our attention. The argument that the federal government and the provinces have roughly similar capacities for determining what is in the "public interest" is surely based on the notion that each of these levels has a constituency composed of a comprehensive variety of interests: rural, urban, industrial, professional, commercial, labour and the like. The "public interest" is in part a distillation of the conflicting claims of such competing group interests. That such a variety of interests is clearly not characteristic of most municipalities is apparent when one considers the rural-urban dichotomy, the preponderance of professional and middle-class interests in dormitory suburbs, and the like. It is doubtless one of the great virtues of local government to provide an outlet for the expression of relatively parochial interests; this is in part what local autonomy is all about. But this is quite different from saying that local government is in a position to judge the public interest as comprehensively as senior governments. The upshot must be, then, that the Province should, for certain public functions, assert its notion of the public interest *vis-à-vis* the local level. Road and welfare standards are cases in point. And quite aside from the capacity of a province to make decisions based on the reconciliation of relatively competitive group claims, there can be little doubt that, save for all but the largest municipalities, the technical expertise of provincial officials is appreciably greater than that of their municipal counterparts. Hence there must certainly be more room for conditional grants in the provincial-municipal sphere than in the federal-provincial.

Strong as is the thrust of the above argument, it is subject to restraint on two counts. The first is that the deficiencies apparent in a locally determined public interest are appreciably less in large, well-balanced municipalities than in small ones; the larger a municipality, the likelier it is to contain a representative diversity of interests. The second is that, if a conditional grant is to be justified in terms of the provincially determined public interest, it is important to ensure that the grant indeed results from deliberate provincial decisions. Conditional grant programs that have been allowed to become long-standing offshoots of individual departments of the provincial government, and go unquestioned estimate after annual estimate, can become the preserve of specialized bureaucratic interests and serve only to insulate a particular function from incursion at both the provincial and municipal levels.

We now come to the question of the intermunicipal inequities that may result from conditional grants. If conditional grants are of the flat-rate variety and simultaneously call for the meeting of relatively rigid standards, poorer municipalities may well suffer. But this is not so much an argument against any given conditional grant as it is either an argument against the mechanical provisions of the formula or an argument in favour of supplementing conditional grants with unconditional payments on an equity basis.

[9] *Ibid.*, p. 52.

Issues of equity are closely associated with the possible economic effects of conditional grants. These are of two kinds. The first, an incentive effect, is to induce a re-allocation of local funds in favour of the recipient service. The second, a subsidy effect, is to reduce the local price of the aided service, thereby giving a municipality three possible options: (1) providing additional or improved units of the aided service; (2) diverting resources previously tied up in the aided service to other non-aided services; (3) reducing the tax load. Whether any given conditional grant will have an incentive effect or a subsidy effect will depend on whether a municipality provided the service prior to the introduction of the grant and if it did, at what level of performance. If the municipality did indeed supply a service prior to the introduction of a conditional grant, and this at a level that meets the minimal standards envisaged by the provincial legislation, the conditional grant will have a subsidy effect and local discretion will actually be enhanced as the municipality confronts the three alternatives that follow upon this effect. Conversely, if the municipality did not previously provide the service, or if it did so with low performance standards, the conditional grant will have an incentive effect, inducing a re-allocation of local resources in favour of the aided service.

In many instances, larger and wealthier municipalities may well have provided a service at fully satisfactory standards prior to the introduction of a grant. This is admittedly much less likely among the smaller and/or poorer entities. Under these circumstances, a conditional grant may give rise to dual inequities: the wealthier municipalities will enjoy a subsidy effect and enlarged discretion while the poorer municipalities will lose discretion and confront a situation where non-aided services may have to suffer or taxes be increased. The police and fire grants made by Ontario from 1949 to 1953 probably constitute an excellent example. They certainly had an impact on small municipalities previously satisfied with low service levels that differed substantially from their effect in large cities already well equipped to provide protection services. All of this does not necessarily argue against conditional grants *per se*, but it does underline a real need either for more sophisticated conditional grant formulas or for unconditional grants designed in part to mitigate the inequities that conditional aid can promote.

The relative merits of conditional and unconditional aid can now be balanced as follows. Unconditional grants definitely do not constitute a general panacea that will somehow dissipate all the outstanding issues of municipal finance. Local affairs are such that wise intervention by the Province to promote certain functions and standards is both necessary and desirable. Conditional grants are accordingly an indispensable facet of provincial-municipal affairs. They are appropriate when a clearly determined provincial interest is manifest, but should not be allowed to become insulated through the pell-mell accumulation of programs in particular departments. Nor should they be made without reference to problems of inter-municipal equity. Meanwhile, more scope might be given to unconditional aid under two sets of circumstances, one that prevails when conditional grants have been long in use and the particular service aided has become well established, the other that beckons in light of equity considerations.

PROVINCIAL AND MUNICIPAL: EQUITY

No study of a grant system can evade the issue of equity. That similarly situated individuals should be treated equally is a hallowed canon of all fiscal activity, including grants. As first applied in the making of grants, however, the equity rule was translated into the principle that similarly situated *governmental entities* should be treated equally. Furthermore, there prevailed an Orwellian notion that all governmental entities were somehow more or less equal. Accordingly, uniform per-capita subsidies or flat-rate grants were the rule, save for those municipalities which, for political reasons and again in good Orwellian style, were considered less equal than their equals.

More sophisticated notions of the relation between equity and grants were first applied in Canada to problems of federal and provincial finance. Practical developments in this sphere abetted by world-wide theoretical discussions have gradually led to a trickling down of equity notions to the provincial-local sphere, especially in the domain of education. In brief, contemporary notions of equity as applied to grants offer two advances over the rough-and-ready rule of the past: first it is now recognized that governmental entities are not at all equal in a fiscal sense; second intergovernmental finance must look beyond political entities to the individuals who ultimately pay the taxes and derive the benefits therefrom.

Governmental entities are not fiscally equal because economic circumstances are such that certain units are bound to have lower taxable capacities than others. Governments with low taxable capacity must inevitably levy higher taxes than their counterparts or be satisfied with lower service standards. Futhermore, any given individual living within the jurisdiction of such a fiscally poor government will find himself either paying higher taxes or receiving fewer benefits than a *similarly situated individual* (i.e. a citizen with the same amount of taxable income or property) living under a more affluent government. Accordingly, equity considerations would dictate that grants be tailored to restore equal treatment of individuals who are similarly situated in all things other than location. The resulting fiscal system will then be "neutral" in the sense that, public benefits and costs being equal, the allocation of resources can proceed without disturbance from distortions induced by unequal tax pressures and disparate spending standards.

A fiscally neutral system obviously requires large intergovernmental transfer payments which themselves involve a deliberate re-allocation of resources. Is this kind of deliberate re-allocation likely to bring about undesirable economic distortions? It can be argued that governmental entities are fiscally poor because the productivity of the labour and capital under their jurisdiction is low. If normal market incentives were allowed to operate without fetters of any kind, labour and capital would migrate to other locations where their marginal productivity would be greater. The transfer payments necessary to accomplish so-called fiscal neutrality will remove economic incentive to relocate, and hence reduce mobility by equalizing the disparate tax burdens and service levels that reflect resource productivity in the first place. To the contrary, however, it can be asserted that

> this argument assumes that the push of adversity exceeds the stimulus to mobility of self confidence and resourcefulness that stem from a people being well-educated and healthy, which in turn depends upon there being good

> standards of public services, particularly in the fields of health, education and welfare. To be effective, adversity must be severe and, even then, moves only people with certain qualifications; a policy of letting it provide the spur may do little to eliminate costly, deeply rooted, self perpetuating poverty. . . . If, on the other hand, through the pursuit of a contrary policy, people are well-educated and healthy, they will both be potentially more productive and more likely to see and seize upon opportunities for betterment in their present locations or elsewhere, and there are more likely to be alternatives open to them. There is likely to be a far greater responsiveness to differential rewards reflecting differences in productivity.[10]

Without an exhaustive assessment of the pro's and con's of fiscal neutrality, let it simply be said that there exists widespread agreement that equalization grants are justifiable both for equity reasons and because they will enhance resource mobility. The services most frequently singled out for equalization are education, health and welfare. Given the provincial-local nature of these services, there is a correspondingly strong case for equalization in provincial-municipal finance.

The techniques whereby equalization payments to municipalities can be determined are similar to those that are familiar to students of federal finance. Equalization can proceed on the revenue side through grants that take account of disparities in revenue yield or on the expenditure side through grants that take account of desirable service expenditures in per-capita terms. There also exists a particularly refined technique of equalization that is applicable — that of the "foundation" program.[11]

Originally developed in the field of education, the foundation program is based on the following. First, equalize local assessment in order to achieve maximum intermunicipal comparability. Second, compute the cost of acceptable (foundation) standards (this could include a teacher's salary scale, school building, maintenance and transportation costs, and the like). Third, determine the mill rate that the wealthiest municipality or group of municipalities would have to levy to finance its foundation program. Fourth, apply this mill rate to the equalized taxable assessment of all other municipalities. The Province then pays a grant equal to the amount by which the yield of this mill rate in each municipality falls short of covering that municipality's foundation costs. Municipalities that should wish to levy taxes at a rate higher than the foundation level to meet enhanced educational standards are, of course, free to do so.[12]. In addition, the foundation program can accommodate a flat-rate provincial grant designed to give relief to all municipalities, including the wealthiest, provided the flat-rate grant is included in the calculation that determines each municipality's burden.[13]

It can be seen that foundation programs offer a two-pronged attack on equalization by operating simultaneously on the revenue and expenditure side. They can,

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[10]John F. Graham, "Fiscal Adjustment in a Federal Country", *Inter-Government Fiscal Relationships* (Toronto, 1964), p. 17.

[11]The 1964 so-called Ontario Tax Foundation Program for education should not be confused with "foundation" programs proper.

[12]Modified versions of foundation programs have existed for some years in Nova Scotia and Alberta.

[13]For an illustrative example see Graham, *Fiscal Adjustment and Economic Development*, pp. 226-9.

at least in theory, be carried into provincial-municipal activities other than education. Their principal drawbrack lies in the difficulty of computing the actual foundation costs. The greater the degree of intraprovincial diversity, the greater the difficulty of calculating foundation costs. This certainly explains in part why Ontario grants to education, redistributive though they are, do not approximate a pure foundation scheme.

The type of foundation program just discussed, even if practicable, is necessarily based on conditional grants that are applied function by function, with foundation costs calculated for each. But it is also possible to envisage unconditional grants designed to bring about a large measure of the equity that attaches to pure foundation programs. In principle, such grants would seek to provide to each municipality funds that would make possible some "standard" level of per-capita expenditure at a "standard" mill rate. In practice, defining the "standard" of expenditure constitutes the major stumbling-block.

At this point, it should be made clear that equalization grants constitute only one of three alternative means of securing fiscal equity on the provincial-municipal scene. The other two are total provincial assumption of service responsibilities, and local boundary reform. Assumption by a province of complete responsibility for a service automatically achieves fiscal equity in as much as approximately uniform service standards are henceforth financed by taxes also uniformly levied throughout the province. The apparent limitations of this alternative are, first, that local discretion over the provincially assumed services disappears and, second, that, if pushed to its logical conclusion, it does away with local government altogether. As to local boundary reform, we confront an alternative that does not obviate the need for equalization grants, but that has the dual attraction of achieving a measure of fiscal equity on its own, and of transforming fiscal equity grants into a highly feasible proposition.

With respect to the close connection between equalization grants and local boundary reform, we need only return to the case for such grants. The case begins when it is recognized that local economic circumstances are such that certain municipal units are bound to have lower taxable capacity than others. The smaller a unit of local government, the likelier it is to reveal extremes in fiscal capacity. The situation is further complicated when, as in Ontario, close to a thousand municipalities ranging from Metropolitan Toronto to hamlets of fewer than two hundred souls offer bewildering variations in fiscal capacity and fiscal need. A thoroughly rationalized structure of local government would accomplish two things. First, it would directly achieve a large measure of equalization by pooling municipal fiscal resources over large areas. Second, in that extreme variations in fiscal capacity and need would thereby be drastically reduced, effective equalization grant formulas could be readily applied. It must be admitted that, even with large and rationalized municipal units, conditions might still vary sufficiently to preclude standard foundation grant programs. This is particularly true as between densely populated metropolitan areas and municipalities which, however rationally their boundaries were altered, offered relatively sparse population spread among what are now small cities and rural municipalities. But it is not beyond the capacity of foundation programs to take these types of difference into account.

PROVINCIAL AND MUNICIPAL: JOINT OCCUPANCY AND SHARED TAXES

Our discussion so far has proceeded exclusively on the assumption that where a service is provided in whole or in part by local government, it is financed to a corresponding extent by the property tax. It is indeed true that in Ontario, local financing and property taxation are synonymous. But this has not always been true and is largely the result of senior governments' pre-emption of other tax fields. That municipalities would probably tax items other than property if left free to do so is highly likely. Indeed, the major Canadian taxes, those on income and sales, were originally initiated at the municipal level.

Renewed municipal exploitation of non-property tax fields, nearly all of which are now cultivated by senior governments, might reduce the importance of grants but would have to come about under two alternatives: "joint occupancy" of a tax field or so-called "shared taxes". Let us discuss these alternatives in turn, with particular reference to three major sources of possible revenue—income, sales and motor vehicles.

"Joint occupancy" of a tax field can be defined as the situation that obtains when two or more levels of government independently occupy a field of taxation, each levying its own rate of tax on a base that is independently defined. With respect to income taxation, probably the best-known and longest-standing instance of occupancy by municipal government is to be found in Pennsylvania. The City of Philadelphia has levied a payroll tax since 1940. This tax is withhheld on all wages and salaries earned in Philadelphia and entails no exemptions whatever. By the early 1960's the Philadelphia payroll tax produced over $70 million in revenue annually at a uniform rate of 1⅝ per cent. This sum accounted for almost one-third of the city's revenue, and was collected at an administrative cost of but $1.5 million, most of it incurred in ensuring compliance by the self-employed. In terms of equity, a payroll tax is clearly deficient because it discriminates against earned income. Less serious, perhaps, is another type of inequity that arises because payroll taxes apply to non-resident as well as resident workers. This relates to the fact that non-residents create costs for the municipality to which they commute. It is possible to avoid inequity as between earned and other income through a comprehensive municipal income tax, such as the one recently initiated in Detroit, Michigan. But the costs that arise from municipally administering such a tax are far greater than with the payroll variety, and serious incursions on the simplicity of taxpayer compliance are inevitable. In administrative terms, then, the payroll tax is vastly superior to a general income tax. Its apparent inequity as between earned and other income is damaging, and should be judged only as against the relative inequity of the property tax whose burden it would reduce. A final point of critical importance is that a payroll tax—or, for that matter, any other kind of municipal income tax—is feasible only in major municipalities. Other than Metropolitan Toronto and perhaps Ottawa and Hamilton, it is doubtful whether any Ontario municipality offers a setting where tax yield would justify enforcement costs.

Municipal occupancy of the sales tax field offers even graver complications of a geographical kind. Quebec's municipal sales tax was never widely in use outside of cities, and at that remained plagued with difficulties even after 1940, when the

Province substituted for joint occupancy all the elements of shared taxation save one—the actual levying of the tax rate was at the option of the municipality. As Professor John Due described the situation:

> Sales in one city for delivery in another (particularly common with sales made in Montreal) are troublesome; the stores generally will not (and cannot be compelled to) collect the tax for the city of residence of the purchaser. The purchaser is obligated to report the tax to his city, but frequently does not do so. The city in which the store is located cannot collect tax on sales for out-of-city delivery.
>
> . . . There is some deliberate evasion on the part of customers. On larger purchases, they frequently take delivery at summer homes or homes of friends located in non-municipal-tax areas. Such cases are very difficult to detect.
>
> From the standpoint of stores, the municipal taxes are a serious nuisance. First, they must keep separate records of sales subject to 6% taxes and those subject to only 4% on each sale on which delivery is made. Second—a more serious nuisance—the existence of the municipal taxes greatly increases the demand for [out-of-town] delivery service. . . . Since traditionally Quebec stores, especially those in Montreal, have been liberal in their delivery policies, they find their costs increased materially by the existence of the tax. Finally, in some towns at least, business is lost to merchants in adjacent towns which have no municipal tax.[14]

Little wonder that, in the spring of 1964, fully shared taxation based on a uniform 6 per cent provincial sales tax replaced joint occupancy of the sales tax field in Quebec.

In the domain of gasoline taxation, joint occupancy is as impractical as in retail sales. If anything, a municipal gasoline tax offers even more opportunity for evasion than a sales tax. On the other hand, experience in such American states as Virginia and Massachusetts would seem to indicate that motor vehicle revenue derived either from a municipal licence or a personal property tax levied exclusively on cars and trucks may well be within the realm of feasibility even for small municipalities, especially if provincial co-operation is assured. But while feasible, municipal occupancy of this field must be balanced against the potentially greater equity and simplicity of a provincial road grant designed to yield municipal revenue that closely approximates the benefits derived by users from local road expenditure. Such a grant, in combination with the proceeds of local property taxes that would thereby reflect the access benefits that accrue to property, obviates the case for municipal occupancy of the motor vehicle revenue field.

As already implied, "shared taxation" differs from joint occupancy in that a province simply shares with municipalities the proceeds from a specified portion of its own income, sales or motor vehicle tax. Shared taxation avoids all the problems of compliance, expense and complexity posed by joint occupancy. As defined, however, shared taxation differs from a grant only in that it provides for municipal sharing in a specific tax field rather than in the general revenue of the Province. Shared taxation also might conceivably differ from a grant in that it returned to each municipality the exact yield which the provincially shared tax had produced in that municipality. But at this juncture, major equity problems would arise. Almost inevitably, proceeds from a shared tax must be returned to municipalities

[14] John F. Due, *Provincial Sales Taxes* (Toronto, 1964), p. 186.

in accordance with a formula that takes intermunicipal fiscal discrepancies into account—as does the shared retail sales tax in Quebec. Again, therefore, shared taxation will be similar to a grant in that it will hinge on whether an appropriate formula can be devised. And the search for such a formula will be complicated in direct proportion to the existence of extreme intermunicipal discrepancies arising from variation in size. In this context, the fact that the formula whereby Quebec's shared sales tax is redistributed takes account of regions as well as municipalities is of more than passing interest.

When all is said and done, the similarities between shared taxes and grants are striking. To be specific, shared taxation in the motor vehicle field, assuming an equitable redistribution formula, would be virtually identical to a well-devised conditional grant for municipal roads. As to shared income or sales taxes, which have no necessary relation to any given function, the situation would differ little from that obtaining under an unconditional grant financed from general provincial revenue, with three possible exceptions. First, a shared income or sales tax can conveniently provide the initial base (an individual municipality's revenue yield) from which to launch the calculation of a redistribution formula. Second, such a tax automatically gives to municipal revenue a growth potential that is as good as its elasticity and thereby can reduce the need for deliberate provincial decisions affecting local finance. Finally, a shared tax may perhaps be a useful means of politically justifying the taxes that would have to be raised solely under the provincial label in order to finance the unconditional grants that constitute the alternative.

PROVINCIAL-MUNICIPAL FINANCE: SOME CONCLUSIONS

We began this chapter by asserting that the health of local institutions depends in part on their possessing sole jurisdiction over a number of important duties. Accordingly, we examined six criteria whereby what constitutes appropriately municipal functions can be clarified. Because all these criteria are ambiguous to some degree, one conclusion was that many functions are more appropriately intergovernmental than exclusively local. A second and most important conclusion was that the capacity of these criteria to produce what can indeed be termed exclusively local functions hinges in no small part on the structure, particularly the territorial extent, of the municipalities to which they are applied.

In that many functions are inherently intergovernmental, provincial grants are bound to have a continuing role in municipal finance. Conditional grants, although they admittedly impinge on local autonomy, are still justifiable to the extent that a clearly defined provincial interest should hold sway over local interests. The strength of the case for asserting the provincial interest in individual instances grows in direct proportion to the extent to which the local interest is determined in the parochial setting of small or unbalanced municipalities such as rural townships and dormitory suburbs. As to unconditional grants, these are clearly superior to a haphazard accumulation of conditional programs that are more representative of historical happenstance than of conscious assertions of the provincial interest. Again, unconditional grants have a role in achieving equity.

In recent years, it has come to be recognized that the equity of a grant system hinges on the extent to which it achieves fiscal neutrality, that is, permits individuals

similarly situated with respect to income, wealth and expenditure to receive similar public services and incur similar tax burdens wherever they may live. The functions most commonly singled out for the fiscal equity grants needed to achieve neutrality are education, welfare and health. Such grants can be made by having recourse to what has come to be known as a "foundation program", whereby satisfactory service standards are laid down and provincial payments geared to local capacity to meet these standards. As to the general run of local functions, equity can be accommodated through unconditional grants based on a general equalization formula.

However sophisticated, grants constitute only one means of achieving equity in provincial-municipal finance. In certain instances, equity may be better served through total provincial assumption of a service. And in all others, it should be emphasized that municipal boundary reform can automatically achieve a large measure of equity. Furthermore, because boundary reform tends to reduce extremes in intermunicipal fiscal capacity and need, it can usher foundation programs and equalization grants into the realm of the feasible.

Grants aside, there is the question of whether the joint occupancy of tax fields and/or shared taxation have a place in provincial-municipal fiscal relations. Joint occupancy, at least in the income and sales tax fields, is plagued with well-nigh insuperable problems. Shared taxation, on the other hand, is well within the realm of the feasible. But the more fiscally sophisticated a shared tax, the more it resembles a well-formulated grant program. A shared income or sales tax may perhaps offer a few marginal advantages over an unconditional grant. But the formula whereby such a tax is redistributed among municipalities hinges, like that of its grant counterpart, on the rationality of the municipal structure.

A single overriding point should now be pressed home. However one examines a provincial-municipal system—the division of jurisdiction, the relative merits of conditional and unconditional grants, the achievement of equity and the desirability of shared taxes—one is driven to the municipal structure. Fiscal devices cannot substitute for properly tailored local institutions. To the contrary, the structure of these institutions determines in no small part whether such devices will be operational.

CHAPTER 6

Avenues of Change: A Tentative Exploration

PRESCRIPTION is often more difficult than analysis. This is unhappily true of provincial-municipal finance in Ontario, where, failing reform in the structure of local government, fiscal prescription is bound to be piecemeal. The foregoing chapters have, it is hoped, shed light on the development and present status of provincial-municipal grants in Ontario, and have perhaps given the reader an analytical perspective on certain key issues of intergovernmental finance. What follows is humbly offered on the altar of public policy as a tentative basis for concrete recommendations. The reader is invited to apply the test of his own reasoned judgment. What appears to have concrete and practical possibilities can then be subjected to more detailed study.

This chapter will begin on a highly cautious note by considering what administrative improvements might be contemplated in the absence of any major changes. It will then build from a relatively far-reaching overhaul of road grants to radical departures in welfare, miscellaneous grants and intergovernmental finance in general.

FIRST AVENUE: PROVINCIAL GRANT ADMINISTRATION

"Much progress," K. G. Crawford wrote over a decade ago,

> might be made toward reducing the conflict of aims in the various grant plans and toward eliminating duplication of effort and waste of time at the municipal level if all grants were handled through the departments of municipal affairs or if at least the basis of grants, the conditions attached, and the type of reports, forms and records required were cleared with the municipal department before being put into effect. It is only reasonable to expect that the departments of municipal affairs will have a better understanding of the over-all local problems than will any of the other provincial departments. They should be able to assist in advising on the effect on local authorities of conflicting grant aims and in eliminating some of the problems of compliance. The municipalities should have the benefit of the skills and experience of the municipal departments in this regard, even at the expense of inter-departmental jealousies at the provincial level.[1]

The validity of Crawford's recommendations still stands, as does the need for implementing them. That they have fallen on deaf ears is obvious if we look back to any of the detailed grant Tables in Chapter 3. Perhaps it is too much to expect all line departments to clear their grant programs with the Department of Municipal Affairs. If it is, four less demanding possibilities for administrative reorganization can be broached. First, what reason can there be for grants in aid of wolf bounties to come under the Department of Lands and Forests when those in aid of fox

[1]K. G. Crawford, *Canadian Municipal Government*, p. 366.

bounties are made by the Department of Municipal Affairs? Let the animal kingdom be one! At present, a municipality must file separate returns to distinct departments accounting for the demise of each of two fur-bearing species. Surely ease of compliance and administrative economy dictate the consolidation of these grants under one department. Second, why are grants for the construction of community centres under the Department of Agriculture while recreation programs fall to the Department of Education? Community centres are not simply of interest to rural municipalities. Indeed, a check of the Public Accounts for 1962-63 reveals that cities received almost one-quarter of the total spent on grants for community centres and that among the other classes of municipality qualifying for grants were such places as Mimico, Oakville, Long Branch, Scarborough and Etobicoke. If community centres are thus misplaced in Agriculture, there exists a further anomaly in that grants for recreation programs, which include a subsidy toward the salary of the recreation directors who toil in community centres, are under the Department of Education; and not to complicate things unduly, certain other recreation directors supported by that department work in municipal parks that have received grants from the Department of Lands and Forests. These grants should be consolidated under a single department, preferably Municipal Affairs. Third, are there compelling reasons why the Department of Public Welfare must make its grants under no fewer than thirty separate headings? Since there is every evidence that spending under some of these headings finds its way to the General Welfare Assistance rubric, the existence of such multiplicity is surely something of a mystery. Public Welfare might well borrow a leaf from the Department of Highways, which has consolidated complex grant provisions into a small number of accounts. Fourth and finally, the practice whereby grants for indigent hospitalization have been made a useless and confusing appendage to unconditional subsidies begs a rational explanation. Such grants, if continued, should emanate from the Department of Public Welfare.

If a major consolidation of grant programs does not recommend itself, the reshuffling outlined above may provide a modicum of administrative improvement. But consolidation, at least in certain fields, retains enormous appeal, and the Department of Municipal Affairs stands out as the most likely repository for many programs. That this Department has not so far accumulated greater grant-making responsibility is perhaps due to historical factors. As originally set up in the mid-1930's the Department was designed primarily to stave off municipal insolvency. Under greatly changed circumstances, the Department has gradually become reoriented and now includes, among others, a Community Planning Branch. It certainly has much potential at least to become the home of most grants oriented toward the amelioration of the local environment. To redevelopment, which is already a departmental responsibility, might be added community centres, recreation and municipal parks. And since agricultural drainage has recently been moved to Municipal Affairs from Public Works, there is probably no reason why conservation should not be transferred as well. For the other grant programs that remain in functional departments, Municipal Affairs might well provide an appropriate financial clearing-house. Local government is by its very nature a decentralized phenomenon. But decentralization becomes redundant when carried over uncritically into the domain of provincial administration.

SECOND AVENUE: ROAD GRANTS

If there now exists any grant program that by its very essence is appropriately intergovernmental, it is that for roads. Roads are an indispensable adjunct of mobility and resource allocation and as such constitute a province-wide responsibility. In addition, the Province, through its gasoline taxes, is in a position to finance the benefits that accrue to road users. But by providing access, roads also confer property-related benefits and so are of concern to municipalities as well. Here then is a field where grants, and conditional grants in particular, are fully justified. As mentioned in an earlier chapter, the scale of local financing should vary inversely with the benefits that any given type of road confers on users. This means that provincial aid should be considered as representing payment for that portion of road benefits which accrues to the motor vehicle. It should be noted that if such aid is properly allocated, direct municipal participation in motor vehicle revenue, either through joint occupancy or shared taxation, will not be necessary. Road grants are peculiarly amenable to benefit-cost calculation.

The present dimensions of road finance in Ontario approximate benefit-cost criteria only in that the King's highways are wholly under provincial jurisdiction. These principal thoroughfares, being almost exclusively of benefit to users, are appropriately financed in their entirety by the Province, which collects all revenue from motor vehicle users. For the rest, fiscal rationality awaits a comprehensive classification of all municipal roads in accordance with the flow of user benefits and access benefits. Thus, for instance, municipal roads might be classified as arterial, collector and local roads. The Province would then set a grant rate for each type of road, with the highest rate for arterial roads and the lowest rate for local streets, thereby reflecting the higher benefits that the arterial road confers on users, and the much lower user benefits accruing from streets. Once provincial grants to municipalities are paid on this basis, the remaining portion of the road costs to be borne by the municipalities will reflect the access benefits that the roads have conferred on property. To be sure, considerations of equity will probably demand that the Province take account of intermunicipal variation in fiscal capacity. Within the limits imposed by the municipal structure, a road grant based on the above approach could incorporate an equalization formula.

How far present road grants are from what has just been suggested will be apparent to the reader when he recalls that they vary in accordance with municipal status. The rationale for differential grant treatment on this basis is totally elusive in that status is virtually devoid of meaning. Such an entity as Nepean is now eligible for road grants of 50 to 80 per cent simply because it is a township. Yet Nepean has more people than fourteen Ontario cities that receive road grants at a rate of but 33⅓ per cent. It is tempting to speculate on the extent to which existing road grants have themselves assisted in draining municipal status of meaning; they create an incentive for urban entities to retain a rural designation. In any event, fiscal principles simultaneously demand and provide a basis for a general overhaul of road grants.

THIRD AVENUE: WELFARE

That Ontario municipalities are restive under present welfare policies is abundantly apparent. Testimony to this effect ranges from the frequency with which municipalities plead for provincial absorption of the welfare function to the kind of reasoning that lies behind the proposal that welfare recipients be compelled to work on municipal projects. Yet continued municipal participation in welfare is justified by the Province on the ground that here is a service peculiarly well suited to local administration. Senior governments should provide the bulk of the funds and police standards, but the actual discharge of services should remain in local hands. As Prime Minister Frost stated in his 1949 budget speech:

> The municipalities have submitted that the Provincial Government should assume the entire cost of social services. As I have stated, already the government has assumed the major portion of these costs. To entirely assume them would be to deprive the people of the value of administration at the municipal level where certain matters can be dealt with more effectively. On the other hand, if administration is to be municipal, it follows that for good administration there must be a contribution on the part of the administrative body. While there is great force in the argument that the cost of social services should not be borne by real estate, there is the fact that it is in the interests of the people generally that this administration should be carried on by the municipalities.[2]

And as Provincial Treasurer James Allan echoed ten years later:

> While relieving the municipalities of most of the cost of welfare services and compensating them for the remainder by means of unconditional grants, the Province has left the administrative responsibility for these services with the municipalities, for they, after all, possess the local knowledge on which efficient administration so often depends.[3]

The efficiency of local government in welfare administration is such a well-worn cliché, both among politicians and professionals, that it merits careful examination. That the cliché is somewhat suspect has been well documented by D. V. Donnison. Writing in 1954 about municipal welfare in Brockville, Ontario, he noted:

> One of the doors opening into the main hall of the municipal buildings is marked "Chamber of Commerce. Welfare Office". . . . The welfare officer investigates the needs of those eligible for relief, arranges to visit them at home when he can, and works out the allowances to which they are entitled. But these are not his only duties. He also runs a tourist bureau for part of the year, giving information to tourists and assisting the Chamber of Commerce in ordering and distributing maps, folders and pamphlets. . . . On one occasion the welfare officer was talking with a woman who sat with a child on her knee, anxiety and despair apparent in every word she said. At the counter a family of American tourists were looking at maps of the district and planning their trip for the day. Behind them were seated two unshaven and ill-clad men, waiting to apply for relief. Standing in the centre of the office were the secretary of the Chamber of Commerce and a municipal councillor who were discussing local improvements. These are not the best conditions in which to provide a welfare service, promote the tourist trade or conduct the business of the town.

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[2] *Ontario Budget Speech, 1949*, pp. 23-4.
[3] *Ontario Budget Speech, 1959*, p. 30.

> . . . The staff and accommodation of the [Brockville] Welfare Department are insufficient for the work to be done. Kingston, for instance, with a population less than three times the size of Brockville, has a staff of five welfare investigators and two clerical workers. A far more extensive and effective service can thus be provided. In Brockville the Welfare Department does not hold an important place in municipal government. Its services do not greatly concern the Council, provided that they do not grow too expensive, since the regulations governing their administration are largely determined by the provincial authorities. The provincial government's . . . share in public assistance has the advantage of protecting both the Council and the welfare officer from pressures to grant assistance to people not entitled to it under the regulations.[4]

Donnison's study had an immediate "announcement effect": a considerable improvement in Brockville's welfare services! But its broader implications are a matter for substantial long-run concern. First, there appear to be appreciable intermunicipal disparities in standards of welfare administration. Second, the service levels prescribed by provincial grants can have the effect of translating municipal apathy into self-satisfaction and evasiveness once the basic prescribed minimum has been met. Finally, the sympathetic concern that is supposed to characterize welfare administration at the local level can be snuffed out by the countervailing drive to economize on service costs.

Intermunicipal disparities in standards of welfare administration can be substantiated by statistical findings as well as case studies. The following information is based on an analysis of municipal clerk's returns for 1962-63. Among 873 towns, villages and townships whose returns were checked, apparently 36 had an official who served as a full-time welfare officer, or relief administrator, or both. (A relief administrator has as his sole responsibility the paying out of allowances; a welfare officer, in addition to this function, provides his charges with such broader services as counselling and home visits.) Of these municipalities, 728 had no welfare officer, 167 had no relief administrator and 110 failed to list any official, elected or appointed, as holding welfare responsibilities. (Doubtless the county provided welfare services to a number of municipalities in the last group.) Part-time relief administrators and/or welfare officers were a common phenomenon: 433 municipalities had appointed officials who held from one to three posts in addition to their welfare duties. And in 162 municipalities, the relief function was discharged by elected officials: 105 reeves and 57 councillors acted as welfare officer and/or relief administrator.

As the reader might have guessed, the welfare situation in cities differed from that which obtained elsewhere. None the less, disparities appeared here as well. Of 31 cities whose returns were examined, 15 had full-time welfare officers, 11 full-time relief administrators and 2 full-time officials who combined the welfare officer–relief administrator role. But the salaries of chief welfare officers varied from $4,395 to $10,968 and those of relief administrators from $3,640 to $6,900. Three cities, St. Thomas, Waterloo and Barrie, did not report the existence of an official responsible for welfare.

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[4]D. V. Donnison, *Welfare Services in a Canadian Community* (Toronto, 1958), pp. 96-7 and 103.

Clearly, intermunicipal disparities in standards of welfare administration are very wide. They are in large part attributable to differences in population. But local attitudes and resources are undoubtedly significant contributing factors. Whatever their root causes, deficiencies in welfare administration are a matter for deep concern. Welfare administration today means information, counselling, rehabilitation services and related measures designed to speed relief recipients to gainful employment, and to prevent poverty from spreading across family generations. As Professor John Morgan has pointed out:

> the complex needs of the dependent multi-problem family require not only the services of highly trained professional social workers but also the resources of a wide range of specialized services, from the psycho-social treatment services of mental health clinics and psychiatric centres to the inter-related multi-disciplined resources of a balanced rehabilitation team, with its calls upon educational, vocational, medical, psychological and social knowledge and skills.[5]

Viewed in this light, existing discrepancies must be regarded as a serious shortcoming. What has been said so far pertains mostly to general welfare administration. Other facets of the welfare function, Children's Aid Societies in particular, also merit re-examination. Joint provincial-municipal financing of the Societies' wards is now relatively automatic. However, the Societies are themselves advancing into modern phases of social welfare, especially in the field of preventive work. Here municipal financing becomes important and disparities again appear. Since the Societies located in more sparsely populated areas often cover a number of municipalities, their task is less likely to founder on obstacles of scale. But municipal attitudes that range from generosity to niggardliness constitute a real problem. The same would hold for old people's homes and other specialized services.

If all of the above testifies to the flimsiness of the "local administration" cliché, reference should now be made to the statistical analysis presented in Chapter 4. Even though somewhat distorted by auto-correlation, the remarkably close connection between welfare expenditure per capita and grants per capita is significant. Since nearly all welfare grants are for current purposes, no possible distortions from once-and-for-all capital grants are present. At the same time, no apparent relationship exists between equalized taxable assessment per capita and welfare grants per capita, and a comparison between equalized taxable assessment and welfare grants as a portion of general levy yields little of significance. All of this would seem to testify again to the effect that need and municipal attitudes are major determinants of the level of welfare activity, although population too has a bearing. As to municipal attitude, the fact that welfare grants are made on a flat-rate basis with rigid allowance standards undoubtedly discriminates against the poorer municipalities. This may make these municipalities particularly prone to economize on administration and otherwise short-change important specialized activities.

Whither now in social welfare policy? One possibility would be to extend provincial grants to cover local administration as well as allowances and to make

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[5]John S. Morgan, "The Contribution of the Municipality to the Administration of Public Welfare", *Canadian Public Administration*, June 1964, p. 137.

the more comprehensive grants on the basis of an equalization formula. This suggestion, while sound on paper, quickly founders on two aspects of reality. Administrative shortcomings arise in no small part from the existence of small municipal entities where higher standards of administration would be uneconomical; satisfactory welfare equalization formulas are a virtual impossibility for the same reason. A second alternative, then, would be provincial absorption of all welfare activity. This certainly holds out advantages. The problem of population scale could be solved through a rational territorial allocation of provincial field offices. The Province is in a better position to hire trained social workers than most municipalities, and what might be lost in terms of present personal contacts would in most instances be more than compensated for by the removal of the undoubted shortcomings of welfare administration by part-time appointees or elected officials. Common provincial standards would henceforth apply in all parts of the Province not only to allowances but to administration and the development of counselling and related services. Fiscal equity in the financing of welfare would be everywhere achieved.

Provincial absorption of welfare has undoubted attraction. But let us return to our "local administration" cliché. All that we have said about its practical shortcomings remains true. And yet there is another side to the coin. Some municipalities do provide high standards of welfare services. Depending on the community, extra benefits can extend to such items as eyeglasses and birth-control pills. Imaginative counselling and rehabilitation practices have often been worked out as a result of local initiative. In short, nothing holds truer than the "local administration" cliché when the administration is indeed good. A signal danger of provincial absorption is that the helping hand of equalization might become the dead hand of uniformity. Is there another alternative?

The basic stuff of a third alternative is, strangely enough, already in the statute books. This is the so-called welfare unit which received passing mention early in this study.[6] In 1948 the Province passed an Act whereby it would undertake to pay 50 per cent of the cost of administering welfare programs in special multi-municipal units. Under the legislation the Province would appoint the unit administrator and could oversee the conduct of the unit through regulation. The idea behind the welfare unit is obviously similar to that which launched the successful health unit scheme. But either because of municipal resistance to provincial regulation or because of provincial apathy in pressing the scheme or perhaps for both reasons, welfare units, unlike their health counterparts, have not become commonplace. Only three welfare units now exist in Ontario, and no welfare unit grant could be found in the Public Accounts for 1962-63.

The welfare unit scheme has three great attractions. First it can overcome the problem posed by sparsely populated municipalities; second, it can bring about provincial financing and policing of administrative standards; and third, it can do all this without precluding special services and experimentation on a local basis. Furthermore, welfare units could be made to dovetail with Children's Aid Societies.

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[6]See Chapter 2, fn. 42.

The latter organizations, which have withstood the test of time, built up much good will and often spanned a multiplicity of municipalities, might well flourish were they to receive the bulk of their financing through the welfare units to which they were attached. A tie-in between the Societies and the units would also have the virtue of pooling the expertise of their respective social workers and welfare officials.

Welfare units hold out distinct promise. But to be an acceptable alternative to provincial assumption of welfare services, they should be created at one legislative stroke rather than be permitted to evolve slowly, as the health units did, through fiscal incentive grants. In addition, to achieve the fiscal equity that provincial assumption accomplishes automatically, welfare units should be accompanied by a foundation grant program, which becomes feasible on the assumption that the units are large enough to provide a full range of high-standard welfare services, which constitutes their basic purpose.

For all their attractions, welfare units do pose a significant problem—they would add one more special-purpose authority to an already hyper-fractionalized system of local government. Perhaps welfare units beckon most if they are part and parcel of a more far-reaching provincial reform that would attempt to integrate welfare with health and perhaps a number of other functions, for example arterial roads, which are now the responsibility of the county. Save for provincial absorption, welfare reform is an avenue of change that leads only as far as a drastic overhaul in the municipal structure.

Fourth Avenue: Miscellaneous Grants

Welfare and roads aside, we now confront the future of the dozens of remaining conditional grant programs. Let us attempt to deal with these in summary fashion. Now that health units are a going concern, there is surely no case for continued discrimination between municipalities that form part of a health unit and those that do not. Nor is there anything to justify the manner in which the health unit grant formula has differentiated among municipalities according to their legal status. As argued earlier in the discussion of road grants, legal status is virtually devoid of meaning. It follows from all this that health grants should receive a thorough overhaul designed to produce a program that would substitute a satisfactory level of services and simultaneously take account of intermunicipal discrepancies in local capacity to finance these services. If reform in the municipal structure was carried sufficiently far, an integrated grant for health and welfare services might warrant serious consideration.

As to grants for the amelioration of the local environment, these should at the very least be consolidated under the aegis of the Department of Municipal Affairs, as explained earlier in this chapter. Redevelopment, parks, drainage, conservation and recreation are the principal functions affected. Then there are the library grants, which now emanate from the Department of Education, and museum grants, which have been under the Department of Travel and Publicity. Given the obvious educational overtones of libraries and museums, there is a case for integrating all grants for these purposes under the Department of Education.

Again, however, a broad view of the local environment might well indicate yet further expansion of the Department of Municipal Affairs into these realms. In any event, the fact that library grants now incorporate an equalization formula should not be lost from sight and should, if possible, be extended to other environmental programs.

For the rest, the winter works and civil defence grants, whose origins are basically federal, can for this reason be allowed to pass without comment. The same holds for the shared liquor revenues which in any event do not constitute a grant program properly speaking, and for the hydro distribution grant which applies with a special justification in Northern Ontario. At this point, counting transportation and welfare we have accounted for no less than 99.2 per cent of the funds spent on conditional grants in 1962-63. There now remain the grants affecting wolves, foxes, warble flies, weed control and the like. Whether on grounds of simplicity or equity, might not the Province assume the total cost of such programs if indeed it is in the provincial interest that they be maintained?

Finally, there are the grants toward the pensions and workmen's compensation of police and firemen, and the grants for the administration of justice. The present police and fire grants are the insignificant remnants of the major grant program in force from 1949 to 1953. Their cost in 1962-63 was approximately $460,000. For the same reasons as the original grant program, that protection services are well established and that there is no particular wisdom in extending provincial subsidies to certain classes of municipal employees, these grants should be laid to rest.

The administration of justice shows up as a small item in the conditional grant category, $295,000. However, justice doubles as one of the appendages to the unconditional grant. Providing as it does $1 per capita to municipalities in organized territory, it provides $6 million against an indeterminate amount of municipal expenditure—probably between $9 and $12 million. Most students of municipal government, from the British Royal Commission of 1901 to contemporary observers, agree that justice is not a function that should properly be charged to the local level. Justice is of general interest, of no benefit to property, and warrants provincial rather than local administration "to ensure that uniformity and impartiality are maintained".[7] The lone point that argues in favour of intergovernmental finance for justice is that the viability of counties may depend on it. If so, the continued survival of counties merits re-examination. But this is warranted in any event as part and parcel of the general restructuring of municipal institutions failing which fiscal reform can only be piecemeal. However municipalities may be restructured, the need for uniformity in the administration of justice is such that it should be absorbed at the provincial level.

FIFTH AVENUE: GENERAL MUNICIPAL FINANCE

There now remains the task of devising a prescription for general municipal finance, with particular attention to unconditional grants and shared taxes. As to the former, the reader who has followed the preceding discussion will not

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[7] Lionel D. Feldman, "Administration of Justice: A Municipal Burden?" *Canadian Tax Journal*, Vol. X, No. 3, p. 209.

presently expect a discussion of the existing Ontario unconditional grant. In effect, this grant has already been buried. It was robbed of the indigent patient payments on our first avenue of change, lost part of its original *raison d'être*, municipal welfare costs, along third avenue, and was finally laid to rest on fourth avenue by the wholesale transfer of the administration of justice to the Province.

The demise of the existing unconditional grant has the signal virtue of creating a situation pregnant with opportunities. For one thing, in that this grant was meant solely for the relief of residential and farm taxpayers (and accordingly was not truly "unconditional"), its passing will enable provincial authorities to reassess whether special treatment of certain classes of property is indeed warranted. Whether in fact residential and farm property should enjoy preferential tax treatment is beyond the scope of this study. Whether such treatment, if warranted, should arise from the grant system is another question. If only in the interest of simplicity, and of devising a grant that is truly unconditional, there is much to be said in favour of using the tax system itself, perhaps through differential assessments, to secure this end. An ideal unconditional grant is one that is made with regard to the total fiscal position of municipalities, and not with respect to any given class or classes of property.

The total fiscal position of municipalities raises the aspect of local finance that is most neglected by the existing grant system. Grants have been allowed to accumulate under the administration of a plethora of provincial departments that all too often seem to operate in splendid isolation. There is no evidence that new grants are introduced, old ones continued or formulas changed with a searching eye to the over-all impact of provincial subsidies on municipal finance. Truly, there is a crying need for a provincial agency, perhaps the Department of Municipal Affairs, perhaps Treasury, perhaps even a committee of Cabinet, charged with inescapable responsibility for annually approving all conditional grant programs, and for devising and keeping under constant review unconditional grants and/or shared taxes designed to suit over-all fiscal conditions at the local level. Once provincial responsibility for programs in keeping with the general fiscal health of municipalities has been clearly focused, a giant step toward genuine reform will have been taken. Not only can alternative grant formulas be evaluated, but the fiscal case for a general restructuring of local government should become abundantly apparent.

As to the shape which future unconditional grants or shared taxes might take, the following comments can be advanced. With respect to the global amount of aid to be made available, the decision should hinge on the yield of the subsidies made available through conditional grants and on the extent to which relief from the burden of the property tax is deemed appropriate. Once the total amount of aid has been thus approximated, its allocation should then be determined on a basis much different from that used for the existing unconditional grant. It will be recalled that this grant rises with population in the belief that larger municipalities have higher expenditures per capita. That there is ground for this belief is illustrated in Table 6:1, which offers a rank correlation of the municipal sample analysed in Chapter 4. With the ranking such that a perfect correlation between larger population and higher expenditure per capita would be +1.00, the Table

TABLE 6:1

Municipal Population and Expenditure per Capita

Municipality	Population	Rank	Total expenditure per capita	Rank	Government and protection per capita	Rank	Public works per capita	Rank	Health and welfare per capita	Rank
Ottawa	268,374	1	120.90	2	38.61	2	11.09	29	13.84	9
Hamilton	266,891	2	120.40	3	35.46	4	8.75	34	18.57	4
London	165,709	3	103.25	16	36.98	3	12.39	23	12.92	12
Windsor	113,550	4	124.69	1	41.57	1	4.76	42	23.98	3
St. Catharines	83,706	5	105.86	12	26.48	16	17.81	10	12.45	13
Sudbury	80,523	6	120.29	4	25.59	17	14.43	19	9.70	17
Kitchener	77,190	7	109.003	11	32.40	8	9.74	33	7.53	20
Oshawa	63,022	8	119.09	5	34.79	5	8.21	37	10.73	15
Brantford	54,372	9	109.009	10	29.92	12	13.59	20	9.30	18
Sarnia	50,551	10	118.68	6	34.26	6	6.00	40	11.55	14
Kingston	48,842	11	111.66	9	31.88	9	9.98	31	13.77	10
Peterborough	47,101	12	112.62	8	31.65	10	15.37	18	16.56	7
Sault Ste Marie	44,031	13	113.06	7	32.41	7	12.44	22	10.60	16
Cornwall	43,200	14	102.25	17	28.10	14	11.19	28	28.31	1
Guelph	39,790	15	104.39	14	28.49	13	11.40	26	5.62	23
Welland	35,645	16	94.19	21	26.89	15	15.49	17	13.23	11
Belleville	30,332	17	98.80	19	31.01	11	17.04	12	17.49	6
Timmins	29,270	18	76.28	26	23.94	18	8.31	36	18.31	5
Teck Twp.	17,361	19	63.43	30	21.31	24	12.25	25	15.55	8
Cobourg	9,775	20	89.38	23	20.01	25	17.86	9	4.26	26
Orillia Twp.	7,686	21	50.00	34	7.93	34	15.78	15	4.08	27
Sturgeon Falls	6,442	22	81.54	24	22.54	21	10.91	30	25.72	2
Atikokan Twp.	6,336	23	103.76	15	23.72	19	18.75	7	6.56	22
Charlotteville Twp.	5,817	24	62.69	31	5.54	37	30.80	3	3.22	29
Cumberland Twp.	5,652	25	48.05	37	4.18	42	21.96	5	4.46	25
Wilmot Twp.	5,620	26	42.54	39	3.48	43	15.83	14	.75	40
Arnprior	5,546	27	100.87	18	22.87	20	17.07	11	3.84	28
Maidstone Twp.	5,443	28	44.12	38	7.96	33	12.30	24	2.43	33
Woolwich Twp.	5,341	29	41.12	40	5.78	36	15.66	16	.97	37
Streetsville	5,291	30	65.45	28	16.58	26	7.45	39	.81	39
Chippawa	3,340	31	94.47	20	21.54	23	16.07	13	2.82	31
Plantagenet S. Twp.	2,422	32	63.95	29	5.43	39	21.07	6	2.97	30
Goderich Twp.	1,983	33	49.48	36	5.28	40	22.80	4	1.45	36
Delaware Twp.	1,831	34	49.80	35	5.51	38	13.14	21	7.34	21
Greenock Twp.	1,744	35	76.41	25	7.12	35	45.62	2	1.55	35
Hillier Twp.	1,393	36	56.65	32	4.68	41	18.65	8	4.83	24
Colborne	1,356	37	52.87	33	14.04	27	11.23	27	2.76	32
Massey	1,262	38	38.85	41	12.20	28	1.82	43	7.79	19
Powassan	1,063	39	66.84	27	9.08	32	5.45	41	1.61	34
Wellesley	673	40	32.50	43	11.66	29	8.53	35	.74	41
Springfield	513	41	36.30	42	9.47	31	7.74	38	.60	42
Thedford	450	42	91.42	22	21.99	22	9.82	32	.18	43
Carden Twp.	300	43	104.96	13	11.41	30	69.41	1	.85	38
Coefficient			Rr=+.86		Rr=+.79		Rr=−.17		Rr=+.77	

shows coefficients of +0.86 for total expenditure, +0.79 for general government and protective services, and +0.77 for health and welfare. Only highways and public works, at —0.17, reveal no discernible relation.

But however close the relation between expenditures and population, it cannot by itself provide an appropriate basis for grant policy. High expenditure per capita may partially represent need, but it may just as easily result from the deliberate choice of a municipality to levy higher taxes or from the fact that a municipality enjoys an affluent tax base. The existence of a correlation between expenditure and population must not be allowed to obscure the other basic reasons for high expenditure—choice and fiscal capacity.

The ideal unconditional grant will meet local need, enhance municipal choice and take account of fiscal capacity. Equalization with respect to both capacity and need is a key to enhancing choice among the poorer municipalities. It also acquires importance in direct proportion to the number of conditional grants that may be allowed to continue on a flat-rate basis. As already pointed out, such grants can inflict intermunicipal inequities whose correction should be part of the purpose of an unconditional grant. Finally, equalization is of signal consequence as a means of achieving fiscal equity among individuals. But it is subject to the following cautionary note. Once incorporated into a grant system, it can create major disincentives to the rationalization of local government by underwriting units whose financial weakness stems primarily from structural deficiencies. Equity should be pursued first through structural reform, then through grants. It is to be hoped that the very difficulty of adapting equalization grant formulas to the existing hodgepodge of Ontario municipalities will make this a likely eventuality.

Unconditional grants aside, there is the question of shared taxes. To the extent that unconditional grants are designed specifically to take account of fiscal discrepancies in property tax capacity, the sharing of income or sales taxes does not constitute a perfect substitute. Rather, shared taxes will beckon in their own right to the extent that the Province deems it advisable to make major reductions in the property tax burden. To be sure, such reductions can be achieved through an unconditional grant, but among the advantages of shared taxation, as mentioned in an earlier chapter, would be the automatic elasticity they would confer on the municipal revenue base. Also, shared taxation would provide a supplementary base from which to calculate equalization grants, a base which, together with assessment, would reflect more broadly the total fiscal resources of a community.

Once again, let it be reiterated that the design of future unconditional grants, and the extent of shared taxation, if any, must be determined with respect to the over-all fiscal position of municipalities as reflected by their need and capacity, their structure, and their position *vis-à-vis* conditional grant programs. This is why clearly focused responsibility in some agency of the provincial government is an indispensable first step toward genuine reform. This responsibility must extend to all facets of provincial policy affecting local government, not least education, whose financing has proceeded apace in almost total isolation.

CHAPTER 7

Education and Municipal Finance

OF ALL the services provided by contemporary government, education is stamped by the extent to which there exists remarkable unanimity that it is "a good thing". This unanimity of sentiment has deep roots in history, and indeed, within the context of Ontario, frequently antedates commonly held notions concerning the value of general-purpose municipal government. The practical result is that both local school organization and provincial grants for education were often in existence before municipalities came into being. The chronological primacy of education has had a lasting impact whose influence on educational finance survives to the present. Thus is the contemporary capacity of school boards to requisition operating funds from municipal councils partially explained as is also the advanced and sophisticated structure of provincial school grants.

Educational activity in Ontario today is marked by at least three characteristics that distinguish it from other fields of provincial and local endeavour. First, education is, and has been since the nineteenth century, an eminently intergovernmental operation in functional terms. A partial list of those facets of education that are primarily the responsibility of the Province would include curricula, textbooks, length of school year and school day, period of compulsory attendance, teacher training and qualifications, over-all organization of the school system and approval of construction. The school board, for its part, has a primary role in hiring teachers, determining the size of classes, constructing and maintaining buildings and, within the limits imposed by provincial control, setting individual standards for teachers' salaries, special classes and diversity of course offerings. Perhaps more than any other public function education is truly a *shared* responsibility of two levels of government. Second, the intergovernmental sharing of educational functions is very closely reflected in the domain of finance. Here the Province in effect guarantees minimal levels of spending through equalization grants while leaving to the community an important degree of discretionary authority over the ultimate allocation of resources to educational services. The distinguishing mark of educational finance is that here alone the Province has made a long-standing attempt to gear its aid inversely to local fiscal capacity as measured by equalized taxable assessment.[1] The third and final characteristic that sets education apart is its priority in the allocation of local funds. Educational expenditure is autonomously determined by a special board elected for the purpose and hence is insulated from incursions by competing local functions. School boards have the capacity to requisition annually from municipal councils a sum equal

[1]As noted earlier, the only non-school grants that take account of local fiscal capacity are those for libraries, which significantly enough are made by the Department of Education, and more recently township and county road grants.

to the difference between the total current expenditure set by the boards and the operating grants received by the Province.

Education, in brief, is a very special public function marked by an unusual degree of provincial-local sharing, an unambiguous commitment to minimal standards and a highly privileged position in the local political arena. This chapter does not pretend to offer a treatise on the many ramifications of these distinguishing characteristics, nor does it even attempt a comprehensive survey of the financial dimension of education. It offers instead a severely limited excursion into two phases of educational finance that are directly pertinent to what has been a key concern of this study: the fiscal position of Ontario municipalities. The first is the over-all impact of the grant structure on local finance, the second the position of the property tax as the sole source of local educational revenue. The chapter begins with a brief historical survey of school finance, proceeds to a discussion of selected aspects of recent provincial grants, goes on to a consideration of the burden of education on the property tax and closes with an assessment of policy alternatives designed to supplement the avenues of provincial-municipal change explored in Chapter 6.

THE DEVELOPMENT OF EDUCATIONAL FINANCE

The history of education in Ontario can be summarized in terms of three overlapping phases whose chronological development follows the sequence in which they are outlined but whose impact on contemporary education is simultaneous.[2] From the eighteenth century comes religious and parental concern over the provision of schools. Then the nineteenth century produces the simultaneous development of local authorities and provincial responsibility. Finally the twentieth century introduces concerted efforts to approximate the ideal of equal educational opportunity in practice.[3]

(1) Foundation Stones: Faith and the Family

Religious and parental concern forms the bedrock on which the Ontario educational system was established. Sometimes the initiative was religious, as when a pastor would provide instruction in his own quarters to children of his flock. At other times the impetus was parental, as when a group of families would combine to hire a teacher. Most frequently, perhaps, the faith-family forces interlocked, for just as the minister depended on family interest to sustain his educational efforts, so also did families frequently bring into their midst men who could qualify for both educational and pastoral duties.

The observer need not long reflect on the present scene to detect the legacy of faith and family. Publicly supported separate schools for Roman Catholics (and for Protestants in those rare districts where Roman Catholics form a majority of the local population) immediately come to mind. Within the so-called "public" schools is given non-denominational instruction in religion or "ethics" which, even

[2]These phases are based on H. P. Moffatt, *Educational Finance in Canada* (Toronto, 1958), pp. 35-42.

[3]The historical summary that follows relies particularly heavily on Royal Commission on Education in Ontario, *Report* (Toronto, 1950); and Charles E. Phillips, *The Development of Education in Canada* (Toronto, 1957).

though no longer mandatory in Ontario, would be unconstitutional in the United States. And the local school board is the direct descendant of the hardy little groups of pioneer families whose initiative and resources brought teachers into the wilderness.

(2) Building Blocks: Provincial Grants and Local Authorities

Like the religious and domestic factors that influenced them, provincial grants and local authorities were closely intertwined from the beginning. The making of provincial grants has a slight chronological edge over the official recognition of local authorities, at least in terms of the fact that the first provincial subsidies were directed toward secondary rather than elementary schooling. In education as in other matters, the Family Compact ran true to form. Land grants for a university and for private secondary schools[4] were set aside in 1797, and ten years later an Act provided annual grants of £100 to the masters of each of eight such schools. Meanwhile, however, the hard-pressed parents of the hinterland agitated for funds and the Legislature finally responded in 1816 by setting aside £6,000 for "common"—i.e., elementary—schools. This legislation, responding as it did to locally exerted pressure, also served to induce local organization by making the election of three school trustees a mandatory condition for aid. From this point on, provincial grants and local boards were inextricably linked. Beginning in 1833, the legislature required local boards to raise (by means of fees, subscriptions or gifts) an amount sufficient to match the grant for elementary school teachers' salaries. And in 1839, the first capital grant for secondary schools was accompanied by the condition that the local trustees raise a sum sufficient to match provincial aid to the maximum limit of £200.

Again as a result of provincial stipulations accompanied by financial aid, the property tax made its school debut in 1841. The recently constituted Legislature of the United Province of Canada required newly created district councils to match elementary school grants by a levy on real and personal property and to supplement this amount with a direct charge of 1s/3d on the parents of each pupil. Where a school did not already exist, the inhabitants of a school section could be assessed an additional sum not exceeding £50 to pay for construction costs. Operating grants were allotted among the districts according to the number of children between the ages of five and sixteen. The year 1841 is of critical importance in the development of education in Ontario, and this not only because of the introduction of a mandatory property tax. Separate schools for the first time received explicit recognition as part of the common school system.

In 1843 the grant scheme launched two years earlier was subjected to a number of technical revisions and, of greater significance, the first halting steps were taken in the direction of free education. The so-called "rate bills" (tuition charges) were made optional in urban centres. This marked the initial success of the "free school" forces under Egerton Ryerson, a success that spurred them on to a goal ultimately reached only in 1871. Meanwhile, further refinements appeared in the grant structure. Average daily attendance first became a factor in grant calculations in 1850, being used to apportion provincial funds among the school

[4]In good colonial parlance, these were termed "public" or "grammar" schools.

sections of the several townships. In the same year, the election of school trustees became universal practice as the result of a dispute whereby in 1848 the City of Toronto had refused to levy sums requested by an appointed board. The following two decades witnessed a series of further efforts to clarify the status of school boards *vis-à-vis* municipal authorities, but the main developments in educational finance, save for the windfall resulting from the settlement in 1856 of the "Clergy Reserves Question", were in the domain of separate and secondary schooling.

From 1841, when they received official recognition, until 1850 the separate schools were sustained in the same manner as the public schools. But complications developed as the use of property taxation became more widespread. In the latter year, legislation excluded separate schools from the proceeds of any local taxes over and above those levied to match provincial grants. Partly as a result of judicial *obiter dicta* in the case of *Trustees of the Roman Catholic School of Belleville v. School Trustees of the Town of Belleville* (1852), remedial legislation was passed in 1853. The Supplementary School Act of that year restricted separate schools to a share, pro-rated on the basis of attendance, of the provincial grant accruing to the common schools of a municipality or school section. But at the same time, the Act exempted separate school supporters from all local taxes levied for the support of common schools, provided that they subscribe to the separate schools an amount at least equal to the sum for which they would have been liable had separate schools not existed. Two years later, the so-called Taché Act of 1855 discarded the above proviso, and conferred on separate school trustees all powers in regard to separate schools enjoyed by their common school counterparts.

The stage was now set for the final *dénouement* of the pre-Confederation separate school controversy. The Separate Schools Act of 1863, later entrenched in constitutional law by the British North America Act of 1867, reaffirmed the corporate status accorded to separate schools in 1855. And, most important from a financial viewpoint, the Act provided that separate schools be entitled not only to their share of the provincial operating grant but also "to a share in all other public grants, investments and allotments for common school purposes now made or hereafter to be made by the province or the municipal authorities, according to the average number of pupils".[5] Thus are separate schools eligible to the present day for all provincial grants paid on behalf of elementary public (common) schools.[6] Furthermore, separate school supporters are exempt from all tax levies made on behalf of the public elementary schools and are liable instead for the taxes levied by the separate school boards. These twin principles provide the basic foundation of separate school finance in Ontario. The sole financial dilemma left unsolved by the Act of 1863 lies in the domain of business assessment. While family-owned firms can declare themselves as supporters of either separate or public schools,

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[5]*The Separate Schools Act of 1863*, 26 Vict., c. 5, s. 20.

[6]That the reference in the *Separate Schools Act* to "public grants" means grants for public *elementary* schools only was later specified in *Tiny Separate School Trustees v. The King* (1928). Roman Catholics accordingly have no claim on provincial grants for secondary, continuing or vocational education. In that public schools have had authority to conduct Grade 9 and 10 classes under certain circumstances, separate schools do receive grants for pupils in these "secondary" grades, but at elementary rates only.

many corporations, such as those whose shares are publicly traded, have been unable to declare support, with the consequence that their assessment has accrued entirely to public schools by default. The latest efforts to overcome the resulting difficulties are registered in the provisions of the most recent grant legislation and will be dealt with later.

Accompanying post-1850 attempts to clarify the status of separate schools were provincial efforts exerted on behalf of secondary education. Between 1807 and 1853, district grammar (i.e. secondary) schools were financed almost entirely by tuition fees and local subscription. Small grants were regularly provided from 1839, and consisted of a maximum of £200 per district for construction costs, up to £100 per school for operating costs, and also £50 for an assistant teacher in each school. Then in 1853 a signal change was wrought in secondary school finance by legislation authorizing county, city, township, town and village councils to levy property taxes for the support of grammar schools. At the same time grants were considerably increased through the establishment of a Grammar School Fund composed of all money arising from the sale of lands set apart for secondary education, together with the grants voted annually by the Legislature. Money from this fund was to be apportioned among the several counties on a population basis. Average daily attendance became the dominant factor in 1865.

That secondary education was becoming well established is attested to by the fact that female enrolment began to pose a grant problem in the mid-1860's. Since grants were made on the basis of attendance, rising enrolment of girls in coeducational schools in effect penalized schools admitting boys only to the point where, in 1867, a change in the attendance formula was wrought whereby the attendance of two girls would be required to match the attendance of one boy. Needless to say, school authorities, let alone the female population, did not take kindly to this sort of discrimination, and the two-for-one formula was discarded in 1869.

In 1871 there began an unhappy grant experiment with "payment by results". Provincial grants were allotted first on the basis of attendance, student proficiency and the length of time each high school was kept open, and subsequently (from 1875) on the basis of attendance, results of inspection, and school standing on the examination results of the second year. The experiment was brought to an end in 1885, and at that time the Legislature introduced a grant formula that remained substantially unchanged until 1936. The principal determinants of secondary school grants became the salaries paid to teachers, the character and equipment of school building, and the average attendance of students.

Harking back now to the elementary school scene, what is probably the major landmark in the development of Ontario education was reached in 1871 when primary schooling, whether public or separate, was made "free". Grants continued to be apportioned among local entities according to population and between public and separate schools according to average daily attendance. Not until 1907 was a change wrought in the elementary school grant system that had been in effect for almost half a century. At that time, grants for rural public and separate schools in counties and territorial districts came to be apportioned on the basis of salaries paid to teachers, the grade of teachers' certificates, the character and equipment of

accommodation, *and the amount of local assessment.* The age of equalization had dawned.

(3) Equalizing Educational Opportunity

The road to free elementary schooling, whether public or separate, was a long and tortuous one. Throughout the nineteenth century, the basic faith and family roots of Ontario education had continued to make themselves felt. Pressure from parents both for larger provincial grants and for better-constituted local authorities made a contribution whose effectiveness should not be obscured by a simple chronology of educational developments. As for the role of religion, it surely suffices to point out the towering figures on the nineteenth century educational scene: John Strachan, Michael Power and Egerton Ryerson—clergymen all. Superimposed on the partnership between faith and family there developed a partnership between Province and local authority, two levels of government joined in the provision of a truly shared public function. Just as provincial finance had become a tool to shape the status and authority of local boards, so had local conditions in turn structured the scope and design of provincial policy.

Free education in the elementary schools presently marked a signal advance and provided a fountainhead for future developments. The public provision of free schools is based on the twin notions that a healthy democracy must have an educated citizenry and that the opportunity to acquire education must be within reach of all citizens. From here there naturally develops a quest not only for minimal standards of schooling but for means to make these minimal standards accessible to all. Since the ability of localities to shoulder the burden of minimal education standards is bound to vary substantially in a large and diverse province, attempts to equalize resources will be the logical outcome.

The initial step toward equalization taken in 1907 through the inclusion of assessment as a factor in apportioning grants to rural schools was reaffirmed in the grant legislation of 1922. Two years later the School Law Amendment Act of 1924 extended in part the principle of equalization to non-rural elementary schools by providing that any *special* grants to *urban* public and separate schools take account of the value of property taxable for school purposes. Finally in 1930 *all* sums of money voted for public and separate schools were made subject to apportionment on the basis of attendance, school board expenditure and the value of property liable to taxation for school purposes. This experiment, in effect until 1944, not only provided for equalization on the basis of universally applicable principles but also placed urban and rural schools on the same basis *vis-à-vis* the provincial grant system.

There now remained secondary education, which had itself been made "free" in 1921. Beginning in 1936, grants on teachers' salaries and on attendance were made inversely to school assessment. But, as the Royal Commission on Education pointed out in 1950, since the total grant to secondary schools was small (only 12 per cent of total expenditure in 1942), this effort to achieve equalization met with little success. In secondary education, and to a lesser extent primary education, massive provincial aid and the development of equalization into a fine art awaited the post-war era.

EDUCATIONAL FINANCE: THE POST-WAR EXPLOSION

Of all the services provided by post-war governments, whether federal, provincial or municipal, education stands out as by far the most explosive. The dollar dimension of post-war education finance, together with data that lend a statistical perspective to the historical developments sketched in the previous section, is outlined in Table 7:1. In 1875, four years after the advent of free elementary schools, the total cost of education in Ontario was a modest $3.6 million, of which the provincial share accounted for but 14.1 per cent. Twenty-five years later, educational expenditure had barely doubled; a relatively constant provincial-local ratio had been maintained. Thereafter, spending rose more rapidly—to $17.9 million in 1915, $34.3 million in 1920 and $54.6 million in 1930, at which time school expenditure reached its pre-war peak, with the Province footing almost one-quarter of the total cost. Not until the 1940's did educational spending recover from the Great Depression. In 1945 substantially increased provincial grants raised the provincial share of spending to 42.8 per cent, and from 1946 until 1960 the percentage of provincial to total primary and secondary school expenditure hovered

TABLE 7:1

Provincial Grants and School Board Expenditure in Ontario, Selected Years 1875 to 1944 and Annually, 1944 to 1963

Calendar year	*Provincial grants*	*School board expenditure (capital and current)**	*Provincial grant as a percentage of school board expenditure*
	(thousands of dollars)		
1875	503	3,557	14.1%
1900	1,132	7,776	14.5
1915	2,270	17,927	12.6
1920	7,808	34,321	22.7
1925	9,334	50,933	18.3
1930	12,862	54,607	23.5
1935	9,901	47,810	20.7
1944	19,225	66,679	28.8
1945	26,600	62,154	42.8
1946	29,236	68,386	42.8
1947	30,134	78,785	38.2
1948	34,954	89,897	38.9
1949	37,479	100,081	37.4
1950	42,540	113,021	37.6
1951	46,876	136,420	34.4
1952	54,755	157,589	34.7
1953	57,672	171,434	33.6
1954	62,904	191,662	32.8
1955	71,913	222,169	32.4
1956	79,062	250,280	31.6
1957	96,486	284,362	33.9
1958	128,168	327,728	39.1
1959	148,186	382,954	38.7
1960	158,741	429,932	36.9
1961	181,278	474,856	38.2
1962	201,147	532,217	37.8
1963	228,679	583,161	39.2

Sources: Statement by the Government of Ontario to the Royal Commission on Dominion-Provincial Relations, Vol. III (Toronto, 1938); Ontario, Department of Education, Annual Reports of the Minister, 1945-1964.

*These figures exclude special expenditures after 1961 under the terms of the Federal-Provincial Technical and Vocational Training Agreement.

between a high of 39.1 per cent (1958) and a low of 31.6 per cent (1956). Throughout the post-war era, however, the truly astonishing feature of educational finance was its almost incredible growth. Between 1947 and 1960, total educational spending jumped almost sixfold, increasing at an average annual rate of 14.9 per cent. The average annual increases in provincial and local expenditure during this period were respectively 15.3 per cent and 14.8 per cent. This growth continued unabated into the 1960's. It is under such explosive circumstances that Ontario has had to cope with post-war school finance.

The Province emerged into the post-war era with a grant structure considerably changed from that which had obtained since 1930 for elementary and since 1936 for secondary schools.[7] *Circular Grants General 12*, issued late in 1944 and in effect, with minor alterations, from 1945 to 1949, introduced the new concept of "approved costs". Defined as "the cost of operating the school or schools for the preceding calendar year as determined by the board and approved by the Minister",[8] approved costs meant in a nutshell that the Minister was free to establish maximum costs for grant purposes, whether current (e.g., instructional salaries not exceeding $115 for each pupil of average daily attendance) or capital (e.g., $20,000 for a new elementary school home economics classroom). The number of items included in the approved cost package differed slightly as among elementary, academic secondary and vocational schools.

In the domain of equalization, the elementary school grants, largely because of the highly questionable reliability of assessment figures, took a step back from the 1930 legislation that had incorporated urban and rural schools into a single formula. For urban schools, the assessment factor was dropped and grants were apportioned on a percentage basis graded inversely with population, rising as population declined. Under the five-step formula adopted,[9] schools received 30 per cent of approved cost in municipalities of 100,000 or more people, 35 per cent where the population was between 10,000 and 99,999, 40 per cent where it was between 5,000 and 9,999, 50 per cent where it was between 2,500 and 4,999, and 60 per cent where it was under 2,500. Assessment per classroom remained a factor in grants to rural schools, and here four percentage steps, 50, 60, 75 and 90 per cent were applied to approved costs in four grades of school board ranging from those with $80,000 or more assessment per classroom (50 per cent) to those with $30,000 or less per classroom (90 per cent).

As to secondary schools whether urban or rural, a two-part grant involved (1) a flat $10 per pupil of average daily attendance and (2) variable percentages of approved cost graded according to the number of mills necessary to raise the approved cost on the local assessment.[10] A fourteen-step schedule allowed for grants varying from 5 per cent of approved cost where the indicated mill rate was less than 1 to 75 per cent of approved cost where the indicated mill rate was 14

[7]For a more detailed—and doubtless accurate—account of what follows, see K. G. Crawford, *Provincial School Grants* (Toronto, 1962), Chapter VII.

[8]Quoted in *Crawford, Provincial School Grants*, p. 76.

[9]Between 1945 and 1949, the percentage figures that follow were slightly altered but the basic grant structure remained unchanged.

[10]This paragraph describes grants to collegiate institutes, high schools and continuation schools only. For a description of vocational school grants see Crawford, *Provincial School Grants*, Chapter VII.

or higher. Under the scale, each 1-mill increment warranted a grant increase equal to 5 per cent of approved cost. In practice, a low ceiling was imposed on the grants: in no case could total provincial aid to any board (i.e. the flat $10 grant plus the equalization payment) exceed 95 per cent of the approved costs; the latter in turn could not exceed $200 per pupil in high schools and collegiate institutes nor $150 in continuation schools.

Reporting in 1950, the Royal Commission of Education in Ontario (the Hope Commission) sternly criticized the existing grant system. Whether for elementary or secondary schools, the determination of "approved cost" involved detailed checking. Where assessment was a factor (i.e. in the case of rural elementary and all secondary schools), the absence of equalized assessment data was a signal defect. "Possibly the greatest weakness"—according to the Commission—"was the coarse grading of the percentages of approved costs upon which grants were calculated."[11] Thus under the elementary rural equalization grant, for example, variations of one dollar in the assessment per classroom could potentially make a difference of at least 10 per cent, and up to 15 per cent in the portion of approved cost reimbursed by the Province; at the same time, variations of up to $30,000 in per-classroom assessment could yield no increase in grant. In addition, the Commission took note of the rural-urban discrimination implicit in gearing elementary grants to urban schools to the population level. Finally, with respect to secondary schools, both the flat $10 grant and the approved-cost ceilings met with criticism, the former because it perpetuated inequalities and the latter because it was inflexible and well below true average costs.

The Province took little account of the Hope Report, but none the less in 1950 launched a series of gradual changes in the grant structure. The concept of approved cost was retained, but generally liberalized. The principle of flat per-pupil grants, contrary to the Commission's stand, was actually extended, being introduced at the elementary level at a rate of $16 per pupil of average daily attendance.[12] On the other hand, account was taken of the need to refine equalization grants, and schedules were graded with increasing closeness from 1950. Population, however, remained the principal determinant of grants to urban elementary schools,[13] and presently became an important factor in a wholly revamped system of grants to secondary schools. The new grants for high schools and collegiate institutes were composed of (1) a percentage of approved costs varying from 15 per cent in cities of over 100,000 to 80 or 85 per cent where the population was under 1,500;[14] (2) an enrolment grant geared to assessment and population, varying from $40 per pupil of average daily attendance where assessment per capita

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[11]Royal Commission on Education in Ontario, *Report* (Toronto, 1950), p. 707.

[12]Special supplementary grants were paid to the extent of $4 per pupil in 1955, $6 in 1956 and $11 in 1957.

[13]Beginning in 1955, grants on approved costs to urban boards in municipalities having a population below 6,000 and assessment per classroom below $35,000 were based on assessment rather than population.

[14]For centres whose population was under $1,500, the grant was 80 per cent of approved cost if assessment per capita was over $550 and 85 per cent of cost if assessment per capita was under $550. Effective in 1954, the 80 per cent rate applied to centres with a population between 1,000 and 1,499 and the 85 per cent rate to those with populations under 1,000.

was $1,150 or more and population over 20,000, to $104 per pupil where assessment per capita was below $1,050 and population in a rural area under 20,000.[15]

The grant structure initiated in 1950 served, with numerous *ad hoc* adjustments in allowable costs, schedule rates and per-pupil payments, until 1958. In that year, three very important changes were introduced. They involved, first, the merger of the approved cost and average daily attendance grants for both elementary and secondary schools; second, the introduction of equalized taxable assessment; and, third, a new concept geared to burgeoning school enrolment and termed "recognized extraordinary expenditure". Equalized taxable assessment, based on provincially calculated equalization factors which were then applied to local assessment figures, made feasible far more extensive applications of assessment to grants than would hitherto have been possible. "Recognized extraordinary expenditure", meanwhile, enabled the Province to take account of the needs of those particular school boards whose enrolments were increasing at a rapid rate. This particular measure was composed of the sum of each board's approved costs (now called recognized costs) for debenture payments, capital outlays from current funds and transportation: the very items which rapidly rising enrolment would be most likely to affect.

In their actual operation, the grants in effect from 1958 brought together, as mentioned, approved cost, average daily attendance, equalized taxable assessment and "recognized extraordinary expenditure", *plus* population and urban-rural status, into bewildering but none the less effective schedules which run to some seven tables for each of elementary and secondary education.[16] For each of the wholly distinct grants for elementary and secondary education, the basic operational principles were the following. (1) *Separate schedules are outlined on the basis of population and urban-rural status.* E.g., elementary schools—urban municipalities, population 90,000 or more; elementary schools—all rural municipalities and urban municipalities under 6,500; high schools—all rural municipalities and urban municipalities under 13,000. (2) *Within a specific category of equalized taxable assessment per classroom in any given grant schedule, both the grant per pupil of average daily attendance (a dollar amount) and the grant based on a percentage of approved cost vary directly with the level of recognized extraordinary expenditure per classroom.* E.g., urban municipalities above 90,000 population and with assessment per classroom of $600,000 and up receive $50 per pupil and 30 per cent of approved cost if their recognized extraordinary expenditure per classroom is under $500; $54 and 31 per cent if extraordinary expenditure is between $500 and $1,500; $58 and 33 per cent if it is $1,500 or more. Thus is a school board's "growth need" taken into account. (3) *Again within a given schedule, and within any specific category of recognized extraordinary expenditure per classroom, both the per-pupil grant and the approved cost grant vary inversely with equalized taxable assessment per classroom, rising as assessment falls.* E.g., urban municipalities above 90,000 population with recognized extraordinary expenditure per classroom under $500 receive $50 per pupil and 30 per cent of approved cost if their equalized taxable assessment per classroom is $600,000 or

[15]Grants to continuation schools were made on a slightly different basis; see Crawford, *Provincial School Grants*, p. 95.

[16]See Crawford, *Provincial School Grants,* pp. 113-17 and 129-35.

more; $52 and 31 per cent if their assessment is between $500,000 and $600,000; $54 and 33 per cent if it is between $400,000 and $500,000, and so on up to $66 and 43 per cent if assessment is under $100,000. Thus did the 1958 grant scheme handle equalization, which again, by way of example, could be carried out as regards elementary schools to the maximum extent of $43 per pupil and 92 per cent of approved cost in a rural municipality with recognized extraordinary expenditure above $5,500 per classroom and equalized taxable assessment per classroom of under $20,000.

The reader who has been bewildered by the above is invited to take a brief pause which he may use to give vent to any appropriate emotional reaction.

Save for minor changes, the 1958 grant scheme remained in force through 1963.[17] To round out major developments to that year, we need only take note of the Residential and Farm School Tax Assistance Grants. These grants, introduced in 1961, were designed to reduce the tax burden on residential and farm property by providing to school boards special assistance over and above that given under the regular grant scheme. This assistance was set at $5 per elementary and secondary pupil in 1961-62; $12 per pupil in 1962-63; and in 1963-64 at $20 per pupil in elementary and continuation schools, $30 per pupil in academic secondary schools and $40 per pupil in vocational schools. Because the Residential and Farm School Tax Assistance Grant was to be applied solely for the relief of residential and farm property, it joined the unconditional grant discussed earlier to account for the Ontario mill rate differential between commercial property on the one hand and residential and farm property on the other.

Presently equipped with an idea, however muddled, of recent provincial school grants, the reader is now entitled to ask about their impact on municipal finance.[18] On a highly selective basis, Table 7:2 offers an attempt to satisfy his justifiable curiosity. Through this Table, we revisit the selected municipalities whose non-school finances were analysed earlier in this study.[19] The reader will recall that this group includes all cities whose population exceeds 30,000 plus a representative sample of towns, townships and villages.[20]

The Table indicates for each municipality the percentages of combined provincial-local expenditure met by provincial grants for each of public, separate and secondary schools, and in total, during the period 1953 to 1962.[21] The order of presentation is such that cities over 30,000 in organized territory (Ottawa through Belleville) appear first, followed by the towns, townships and villages in organized territory (Cobourg through Carden) and finally by the northern municipalities (Sault Ste Marie through Atikokan). No particular sequence of presentation is followed within any of these groups.

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[17]One such change in the domain of equalization ultimately increased the approved cost grant to a top of 95 per cent.

[18]For the sake of brevity and clarity, numerous special grants have been totally excluded from the foregoing discussion. These include larger unit grants, textbook and library grants, vocational grants, and agriculture, home economics and industrial arts grants.

[19]See above, Chapter 4.

[20]Because of inadequate information, two municipalities that formed part of the original sample are excluded from Table 7:2. They are Sudbury and Chippawa.

[21]Because town, township and village boundaries frequently fail to coincide with school board boundaries, the task of marshalling the raw data on which Table 7:2 is based was enormously complex. The author wishes to thank the Department of Education for preparing the data for the Ontario Committee on Taxation at his request.

TABLE 7:2
Provincial Grants as a Percentage of Total Education Expenditure, Selected Municipalities, 1953-1962

Municipality	*Year*	*Public*	*Separate*	*Secondary*	*Total*
Cities (southern Ontario)		%	%	%	%
Ottawa	1953	17.67	32.16	11.05	19.22
	1954	17.05	29.69	19.05	20.75
	1955	19.64	32.49	20.37	23.08
	1956	15.89	27.81	18.02	19.46
	1957	17.88	30.25	20.69	21.93
	1958	20.64	42.68	24.67	27.44
	1959	20.62	44.47	25.68	28.05
	1960	20.40	42.17	23.49	26.86
	1961	20.08	43.68	24.31	27.17
	1962	21.33	43.78	23.30	27.41
Hamilton	1953	14.84	29.22	5.28	13.45
	1954	14.71	29.25	14.83	16.96
	1955	15.15	29.57	18.29	17.20
	1956	16.03	34.67	18.53	18.37
	1957	17.91	33.48	18.85	19.53
	1958	24.11	49.29	24.75	26.98
	1959	23.02	49.81	26.24	26.96
	1960	22.30	50.01	29.40	27.56
	1961	23.35	51.73	23.58	25.49
	1962	26.37	54.89	23.90	29.13
London	1953	15.39	29.08	6.23	13.59
	1954	16.06	27.55	15.35	16.74
	1955	17.68	35.11	17.86	19.30
	1956	16.59	38.67	16.31	18.58
	1957	19.55	42.14	18.00	21.16
	1958	23.20	55.37	22.04	26.01
	1959	21.84	56.62	23.55	26.20
	1960	21.42	56.66	22.58	25.77
	1961	27.71	52.72	32.23	31.53
	1962	31.17	55.00	32.54	33.91
Windsor	1953	14.67	32.06	8.90	15.53
	1954	15.42	33.36	14.39	17.65
	1955	15.69	36.03	14.79	18.38
	1956	16.43	36.00	15.07	18.99
	1957	18.89	39.40	19.25	22.26
	1958	22.68	53.58	29.54	30.79
	1959	24.27	53.70	31.37	32.19
	1960	23.50	55.83	28.54	31.48
	1961	23.97	53.82	27.12	31.27
	1962	24.89	58.11	25.87	32.26
St. Catharines	1953	18.47	32.95	10.51	18.29
	1954	19.02	30.90	23.04	21.33
	1955	20.94	35.75	23.13	23.19
	1956	18.84	34.66	20.78	21.20
	1957	21.37	36.33	21.12	23.03
	1958	26.06	48.50	34.04	31.47
	1959	26.40	53.43	32.87	32.40
	1960	26.09	53.14	30.40	31.44
	1961	32.86	52.66	38.32	37.77
	1962	38.35	56.15	37.42	41.20
Kitchener	1953	18.08	28.93	14.83	19.27
	1954	17.63	28.35	28.90	22.08
	1955	18.38	31.53	25.84	22.46
	1956	19.50	34.38	23.06	23.03
	1957	21.25	36.05	21.15	23.75
	1958	27.95	44.20	34.51	32.65
	1959	25.91	46.65	37.37	32.92
	1960	26.34	46.22	33.64	32.20
	1961	27.07	51.06	34.60	34.07
	1962	30.46	51.19	31.06	34.97

TABLE 7:2 *(cont.)*

Municipality	*Year*	*Public*	*Separate*	*Secondary*	*Total*
		%	%	%	%
Oshawa	1953	21.65	23.61	16.87	20.19
	1954	19.22	30.93	26.27	21.89
	1955	22.36	39.80	25.47	24.19
	1956	19.98	35.77	23.27	21.79
	1957	22.34	38.56	25.28	24.13
	1958	26.79	50.44	31.82	30.06
	1959	26.62	51.83	31.26	30.12
	1960	25.72	51.08	29.56	29.12
	1961	26.81	53.25	28.87	29.95
	1962	29.66	56.98	26.14	31.06
Brantford	1953	18.64	38.05	37.22	24.21
	1954	18.28	39.09	47.71	26.76
	1955	23.25	41.50	28.52	25.86
	1956	21.48	37.23	28.37	24.25
	1957	24.54	42.91	33.63	28.16
	1958	26.92	46.57	37.61	31.36
	1959	26.24	50.01	39.36	31.82
	1960	26.57	55.26	35.61	31.94
	1961	29.35	60.56	37.33	34.95
	1962	32.93	67.85	36.73	37.83
Sarnia	1953	22.94	51.00	13.11	24.71
	1954	24.88	48.36	26.82	28.69
	1955	24.85	52.01	27.56	29.33
	1956	22.74	46.46	24.69	26.48
	1957	23.87	46.42	22.99	26.38
	1958	24.11	56.67	28.66	29.65
	1959	25.04	51.63	25.88	29.24
	1960	25.36	53.55	32.82	32.06
	1961	29.03	60.74	30.03	34.36
	1962	30.73	61.92	25.54	33.65
Kingston	1953	25.46	33.62	18.69	25.31
	1954	25.02	36.71	42.20	30.21
	1955	25.87	39.69	35.02	29.78
	1956	27.13	41.02	28.33	28.93
	1957	26.65	39.76	31.65	29.48
	1958	30.08	48.36	38.05	34.53
	1959	30.45	50.44	39.96	35.79
	1960	28.82	51.33	35.62	33.79
	1961	30.30	53.44	38.37	35.87
	1962	29.57	57.53	36.97	35.90
Peterborough	1953	21.10	42.82	11.56	21.27
	1954	20.74	34.36	22.42	23.09
	1955	21.04	35.69	20.95	23.01
	1956	20.08	35.98	17.10	21.06
	1957	22.11	38.16	20.54	23.65
	1958	24.75	50.97	32.29	30.49
	1959	26.75	62.82	36.03	35.46
	1960	26.08	58.04	35.27	48.51
	1961	27.07	58.75	30.88	33.72
	1962	28.55	64.44	38.27	38.85
Cornwall	1953	21.04	47.79	14.89	26.40
	1954	22.21	50.50	23.57	30.67
	1955	23.53	46.85	23.33	29.53
	1956	22.75	40.38	22.52	27.05
	1957	28.24	58.64	16.26	37.46
	1958	27.38	61.50	36.30	43.79
	1959	25.46	63.47	40.30	44.79
	1960	25.09	61.17	39.25	43.72
	1961	26.19	67.74	38.81	46.45
	1962	28.58	73.54	34.95	47.84

TABLE 7:2 *(cont.)*

Municipality	*Year*	*Public*	*Separate*	*Secondary*	*Total*
		%	%	%	%
Guelph.	1953	20.61	32.23	20.43	22.03
	1954	21.84	35.02	27.12	25.08
	1955	20.18	37.85	63.92	29.28
	1956	19.13	36.71	26.81	23.44
	1957	22.97	39.03	22.91	25.05
	1958	27.56	49.39	29.86	31.36
	1959	27.55	32.63	58.13	34.31
	1960	26.94	52.95	35.72	33.42
	1961	28.09	56.46	28.02	32.61
	1962	31.63	58.56	30.08	35.74
Welland.	1953	21.49	—	20.85	21.33
	1954	17.76	—	45.82	24.83
	1955	20.69	—	29.95	23.18
	1956	19.56	—	31.93	24.60
	1957	22.07	48.62	34.94	28.55
	1958	22.53	53.11	36.91	30.94
	1959	23.86	55.75	37.11	31.85
	1960	21.34	52.61	40.50	30.91
	1961	28.65	56.67	38.28	35.36
	1962	32.36	66.85	35.71	38.71
Belleville.	1953	21.69	36.60	37.73	28.34
	1954	21.92	41.57	48.92	34.00
	1955	22.04	39.80	51.62	34.78
	1956	22.73	45.90	47.88	35.26
	1957	26.65	49.76	50.78	38.91
	1958	34.77	63.79	63.46	51.07
	1959	36.45	60.57	59.07	48.91
	1960	36.36	61.16	53.92	46.71
	1961	38.31	63.77	54.28	48.01
	1962	41.40	67.57	52.12	49.05
Towns, villages, townships (southern Ontario)					
Cobourg.	1953	25.95	36.12	76.49	48.23
	1954	23.69	36.91	76.28	45.93
	1955	24.07	39.17	68.19	43.23
	1956	25.14	42.36	66.41	43.73
	1957	26.87	42.55	67.80	44.13
	1958	40.53	60.09	63.46	51.96
	1959	40.46	62.04	63.64	52.12
	1960	37.63	61.41	58.94	49.93
	1961	36.95	65.62	54.52	48.11
	1962	39.51	72.15	53.04	49.64
Arnprior.	1953	38.78	55.17	81.27	63.05
	1954	30.13	52.16	80.03	58.81
	1955	32.58	56.94	78.31	58.53
	1956	30.69	57.39	71.57	54.79
	1957	35.42	55.08	72.52	56.01
	1958	46.87	67.39	76.06	65.01
	1959	44.79	69.39	71.82	63.15
	1960	43.30	70.94	66.14	60.18
	1961	44.00	70.78	66.80	60.79
	1962	46.23	74.38	64.69	61.47
Streetsville.	1953	41.65	—	—	34.28
	1954	36.35	—	—	31.85
	1955	37.19	—	—	32.48
	1956	35.82	100.00	—	34.92
	1957	61.17	78.15	—	58.54
	1958	43.64	78.92	—	44.70
	1959	42.27	73.07	—	37.80
	1960	36.34	73.67	—	31.57
	1961	36.74	71.67	—	33.36
	1962	45.85	73.63	—	40.46

TABLE 7:2 *(cont.)*

Municipality	*Year*	*Public*	*Separate*	*Secondary*	*Total*
		%	%	%	%
Colborne	1953	86.47	—	—	37.58
	1954	49.54	—	—	43.27
	1955	50.79	—	—	31.29
	1956	48.60	—	—	32.06
	1957	47.30	—	—	35.98
	1958	52.75	—	—	41.11
	1959	53.84	—	—	41.64
	1960	54.02	—	—	35.83
	1961	54.34	—	—	37.22
	1962	57.49	—	—	40.93
Wellesley	1953	—	—	—	—
	1954	—	—	—	—
	1955	—	—	—	—
	1956	—	—	—	—
	1957	—	—	—	—
	1958	—	—	—	—
	1959	100.00	—	—	100.00
	1960	100.00	—	—	100.00
	1961	100.00	—	—	100.00
	1962	56.49	—	—	45.30
Springfield	1953	60.45	—	—	52.26
	1954	72.85	—	—	64.57
	1955	63.98	—	—	52.05
	1956	64.08	—	—	50.89
	1957	72.71	—	—	56.81
	1958	76.80	—	—	63.09
	1959	81.79	—	—	68.59
	1960	76.16	—	—	56.49
	1961	81.89	—	—	62.92
	1962	82.41	—	—	62.94
Thedford	1953	51.23	—	—	43.51
	1954	47.54	—	—	39.93
	1955	49.26	—	—	40.20
	1956	50.91	—	—	41.40
	1957	51.83	—	—	41.85
	1958	50.87	—	—	42.62
	1959	57.07	—	—	48.81
	1960	55.48	—	—	47.63
	1961	51.31	—	—	41.88
	1962	52.72	—	—	43.26
Orillia	1953	33.47	—	—	25.75
	1954	36.35	—	—	28.41
	1955	40.15	—	—	31.02
	1956	38.79	—	—	29.00
	1957	39.01	—	—	28.20
	1958	45.97	—	—	34.14
	1959	45.48	—	—	31.32
	1960	42.40	—	—	29.39
	1961	46.45	—	—	30.13
	1962	49.21	—	—	29.91
Wilmot	1953	41.56	61.11	—	36.33
	1954	39.20	60.47	—	34.73
	1955	42.38	51.78	—	37.00
	1956	43.48	61.34	—	35.33
	1957	46.44	66.15	—	38.46
	1958	46.43	75.29	—	39.68
	1959	47.66	73.54	—	40.79
	1960	56.43	72.73	—	45.07
	1961	48.69	70.81	—	38.23
	1962	54.57	68.70	—	44.24

TABLE 7:2 *(cont.)*

Municipality	*Year*	*Public*	*Separate*	*Secondary*	*Total*
		%	%	%	%
Maidstone	1953	32.87	59.53	—	33.61
	1954	34.01	59.42	—	34.12
	1955	34.30	58.61	—	35.00
	1956	34.95	57.47	—	33.64
	1957	41.33	62.90	—	39.60
	1958	40.44	61.49	—	40.48
	1959	47.10	59.77	—	42.43
	1960	44.39	63.97	—	44.55
	1961	37.43	61.85	—	38.38
	1962	42.19	65.72	—	42.69
Woolwich	1953	33.78	—	—	30.36
	1954	35.36	—	—	29.74
	1955	34.93	—	—	29.92
	1956	35.22	—	—	29.13
	1957	38.06	—	—	32.18
	1958	44.11	—	—	36.09
	1959	44.21	—	—	36.71
	1960	43.11	—	—	32.83
	1961	41.45	—	—	31.29
	1962	44.62	—	—	34.72
Charlotteville	1953	—	30.68	—	1.47
	1954	—	29.23	—	1.38
	1955	—	30.32	—	1.47
	1956	17.15	28.34	—	12.58
	1957	29.28	27.55	—	19.91
	1958	37.41	30.95	—	25.05
	1959	56.69	33.03	—	40.19
	1960	51.15	30.18	—	38.19
	1961	48.84	38.96	—	34.76
	1962	51.29	40.29	—	36.17
Cumberland	1953	48.27	64.78	—	45.39
	1954	48.93	64.17	—	45.93
	1955	46.83	63.55	—	43.65
	1956	41.19	61.77	—	42.42
	1957	42.50	64.31	—	46.05
	1958	51.93	69.39	—	52.28
	1959	55.82	71.43	—	55.90
	1960	56.88	72.46	—	57.09
	1961	63.48	71.84	—	59.52
	1962	58.61	72.85	—	57.36
Plantagenet S.	1953	39.06	49.43	97.73	63.64
	1954	44.87	46.28	96.96	61.19
	1955	33.89	46.37	95.70	59.43
	1956	34.20	46.09	95.60	60.54
	1957	38.92	45.23	96.35	62.70
	1958	44.47	51.94	97.61	68.23
	1959	48.04	55.01	98.26	72.16
	1960	56.86	55.92	97.92	74.34
	1961	60.52	58.38	98.34	78.61
	1962	64.05	61.72	97.99	80.96
Goderich	1953	42.19	—	—	32.04
	1954	40.59	—	—	29.48
	1955	41.02	—	—	30.37
	1956	42.89	—	—	30.59
	1957	46.04	—	—	33.05
	1958	49.21	—	—	36.12
	1959	49.40	—	—	37.20
	1960	46.28	—	—	30.01
	1961	47.97	—	—	30.70
	1962	55.88	—	—	36.04

Table 7:2 *(cont.)*

Municipality	*Year*	*Public*	*Separate*	*Secondary*	*Total*
		%	%	%	%
Delaware	1953	42.07	—	—	29.43
	1954	41.83	—	—	29.46
	1955	43.38	—	—	32.96
	1956	42.09	—	—	32.21
	1957	48.83	—	—	34.98
	1958	47.93	—	—	30.55
	1959	48.65	—	—	31.87
	1960	45.95	—	—	30.11
	1961	54.80	—	—	29.32
	1962	55.36	—	—	34.33
Greenock	1953	39.43	66.56	—	39.71
	1954	37.41	60.46	—	39.03
	1955	38.26	63.18	—	39.89
	1956	39.11	60.86	—	42.37
	1957	31.03	46.15	—	33.34
	1958	52.07	60.71	—	52.21
	1959	42.23	66.23	—	51.36
	1960	45.76	67.08	—	52.61
	1961	46.97	73.41	—	56.73
	1962	52.84	77.17	—	59.66
Hillier	1953	30.10	—	—	30.10
	1954	31.78	—	—	31.78
	1955	34.12	—	—	34.12
	1956	36.65	—	—	36.52
	1957	43.90	—	—	32.33
	1958	41.45	—	—	30.50
	1959	43.91	—	—	33.15
	1960	48.81	—	—	34.90
	1961	50.96	—	—	36.89
	1962	48.90	—	—	35.71
Carden	1953	84.44	—	—	72.86
	1954	79.98	—	—	60.42
	1955	81.58	—	—	62.14
	1956	82.19	—	—	60.95
	1957	70.71	—	—	51.83
	1958	64.45	—	—	50.01
	1959	60.14	—	—	48.49
	1960	69.73	—	—	46.47
	1961	75.16	—	—	54.35
	1962	75.39	—	—	54.13
Northern municipalities					
Sault Ste Marie	1953	18.75	29.34	11.25	17.48
	1954	18.12	30.35	24.95	21.86
	1955	18.77	33.22	31.35	24.48
	1956	18.39	33.78	24.01	22.31
	1957	19.57	34.91	27.45	24.21
	1958	23.12	48.53	33.19	30.66
	1959	23.82	51.50	32.05	31.65
	1960	23.18	48.55	29.20	30.57
	1961	22.94	51.47	33.15	32.13
	1962	27.55	54.30	28.35	33.94
Timmins	1953	24.61	33.00	18.12	25.85
	1954	24.03	33.12	34.27	30.06
	1955	25.92	35.68	36.87	32.42
	1956	23.55	37.98	35.15	31.77
	1957	27.16	43.06	35.07	34.89
	1958	37.22	60.28	45.61	48.28
	1959	36.12	62.34	42.28	48.05
	1960	32.64	59.94	35.40	44.19
	1961	31.24	91.23	47.71	56.51
	1962	34.78	66.18	33.51	48.20

TABLE 7:2 *(cont.)*

Municipality	*Year*	*Public*	*Separate*	*Secondary*	*Total*
		%	%	%	%
Sturgeon Falls.........	1953	31.32	48.62	57.20	48.86
	1954	29.17	45.22	59.40	49.71
	1955	32.67	70.93	55.03	60.25
	1956	29.51	74.34	66.02	66.29
	1957	30.60	77.07	61.41	65.85
	1958	37.27	81.91	72.73	74.15
	1959	45.88	82.65	69.90	74.05
	1960	45.83	82.55	68.72	74.00
	1961	37.81	82.59	62.27	71.23
	1962	43.99	84.02	40.38	67.57
Massey..............	1953	58.82	73.83	—	64.91
	1954	53.60	73.24	—	61.04
	1955	60.43	71.60	68.03	65.58
	1956	49.84	74.83	100.00	65.88
	1957	65.66	75.69	62.55	68.44
	1958	62.06	68.01	70.99	65.99
	1959	68.55	72.78	63.43	69.47
	1960	78.01	81.45	52.70	76.95
	1961	60.46	84.38	—	72.53
	1962	60.69	84.81	—	71.68
Powassan............	1953	56.35	—	—	56.35
	1954	54.55	—	—	54.55
	1955	60.02	—	—	60.02
	1956	60.16	—	87.25	74.77
	1957	63.23	—	90.21	76.65
	1958	73.46	—	92.84	84.61
	1959	74.10	—	91.01	83.88
	1960	69.04	—	87.47	79.47
	1961	59.82	—	84.11	73.53
	1962	60.18	—	83.63	73.07
Teck................	1953	30.86	66.35	32.42	38.58
	1954	28.59	61.30	49.07	41.97
	1955	28.68	65.87	50.24	43.55
	1956	28.79	64.09	47.28	42.35
	1957	32.91	69.41	45.45	45.05
	1958	36.10	77.59	55.46	52.80
	1959	34.66	76.35	53.50	51.15
	1960	33.12	74.17	44.96	46.65
	1961	34.93	71.56	44.30	47.17
	1962	36.29	76.70	42.45	50.04
Atikokan............	1953	24.48	—	—	24.48
	1954	40.62	100.00	36.43	40.69
	1955	44.99	70.29	38.40	46.06
	1956	43.58	54.87	42.40	44.84
	1957	38.75	55.20	43.60	41.95
	1958	40.93	56.52	41.80	42.69
	1959	42.40	61.03	48.19	45.99
	1960	42.07	57.98	31.39	40.52
	1961	37.94	61.53	29.15	37.97
	1962	37.74	66.46	28.22	38.11

Beginning with cities, let us launch a brief textual summary of the principal findings that emerge from the Table. The reader is urged to note that the following points are no substitute for detailed study of the Table.

(1) The general trend between 1953 and 1962 is for provincial grants to account for a rising portion of educational expenditure whether public, separate,

secondary or total. Thus in Windsor, to select a city at random, provincial grants as a percentage of school expenditure in 1953 and 1962 were 14.7 per cent and 24.9 per cent (public), 32.1 per cent and 58.1 per cent (separate), 8.9 per cent and 25.9 per cent (secondary), and 15.5 per cent and 32.3 per cent (total).

(2) In every municipality, in every year, provincial grants form a relatively higher proportion of separate school expenditure than of public or secondary school expenditure. Furthermore, what we might call the "grant lead" of the separate schools becomes particularly great after 1957. This is to be expected from the fact that assessment becomes the critical urban equalization factor in 1958; separate schools will tend to have lower assessment per classroom than other schools because of the impossibility of allocating most business assessment on the basis of religion.

(3) 1958, the year in which the grant scheme in force through 1963 was introduced, marks a decided break in the relative role of provincial aid for all types of school; each city reveals decided percentage increases.

(4) The scale of provincial aid to secondary schools has risen more rapidly than that to either public or separate schools. Save for Brantford and Belleville, the proportion of provincial grants to secondary school expenditure in 1953 was consistently, and in most cities markedly, below that to public schools. By 1962 in contrast, secondary school grant percentages were actually higher than those for primary schools in ten of the fifteen cities.

(5) In the domain of inter-city comparisons, the reader should bear in mind the fact that, from 1958, differing grant percentages as between cities cannot necessarily be ascribed primarily to differences in assessment; the "growth-need" factor implicit in "recognized extraordinary expenditure" may also have played a role. As to the actual percentages, there is truly no substitute for detailed perusal of the Table. To whet the reader's interest let it simply be noted that in 1953, Hamilton, with 13.45 per cent, had the lowest proportion of provincial grants to total school expenditure while Belleville, with 28.34 per cent, had the highest. By 1962 Ottawa, with 27.4 per cent, had become the low city, while Belleville, now with 49.05 per cent, had remained the high.

Turning now to the remainder of the Table, both a warning and a word of explanation are in order. The warning involves the reliability of the figures. Because municipal boundaries and school board boundaries so frequently fail to coincide, the data could not be derived directly from school board reports; rather they had to be adjusted on the basis of information concerning the municipal residence of pupils. The process of adjustment, while carried out with great care, was sufficiently complex that complete accuracy cannot be guaranteed. Then in the domain of explanation, it must be pointed out that a blank mark on the Table represents a situation where it was impossible to allocate that portion of the provincial grant accruing to a separate or a centralized secondary board on the basis of the municipal residence of pupils. The locally shareable portion of the cost of education was still charged against municipal taxpayers, thereby affecting the percentage figure in the "totals" column, and making these percentages not comparable

with those of other municipalities.[22] Suitably suspicious, we can now turn to the statistical findings proper.

(1) The pronounced trend whereby provincial grants accounted for a steadily rising portion of educational expenditure in cities is not duplicated in the other municipalities. Indeed, in the domain of public schools, two municipalities reveal a 1962 provincial grant percentage lower than that which obtained in 1953, and in the domain of secondary education the 1962 percentage is lower in five cases. Instances abound where percentage increases are low or virtually nil. Numerous factors can be advanced as offering an explanation for this phenomenon: boundary changes might have occurred, assessment per classroom might have been greatly increased by the advent of business, enrolment might have grown slowly, or any of a combination of these and other factors might have intervened.[23] Whatever the circumstances, the general conclusion must be that the long-term educational grant position of smaller municipalities is more volatile and unpredictable than that of cities.

(2) As with cities, and doubtless for much the same reasons, separate school expenditure in small municipalities has a proportionately greater provincial content than public or secondary school expenditure.

(3) For the small municipalities, 1958 was not the landmark year that it was for cities, doubtless largely because assessment did not affect urban grants in the earlier post-war years.

(4) In the realm of equalization, smaller municipalities almost universally reveal higher percentages of provincial grants to total expenditure than cities. Furthermore, the spread between the municipality with the lowest provincial grant percentage and that with the highest percentage is greater than among the cities. Thus in 1962, for example, Timmins recovered but 34.8 per cent of its public school expenditure while Springfield received 82.4 per cent. At the same time, however, and undoubtedly for reasons alluded to earlier, a smaller municipality's percentage of provincial grant was subject to much greater change than a city's. Thus Carden, which at 84.4 per cent recovered one of the highest proportions of its public school expenditure in 1953, had dropped off to 75.4 per cent by 1962. The upshot would appear to be, in sum, that while small municipalities benefit more from equalization than cities, the high equalization recipient of today may be a more moderate recipient tomorrow.

THE ONTARIO FOUNDATION TAX PLAN

If nothing else, the wide variation in provincial school grant percentages revealed by the analysis that we have just concluded should impress upon us the

[22]The sharp-eyed reader will note that Charlotteville offers an instance where a blank space appears in the public school column from 1953 to 1955. The explanation here is similar to that for blanks in the other columns. Wellesley is little other than a collection of blank spaces: it was not incorporated until 1960.

[23]One interesting structural explanation might lie in the extent to which the 1958 change to provincially equalized taxable assessment had affected the relative position of individual rural municipalities.

extent to which provincial effort is bent toward equalizing educational opportunity. From the tentative steps initially taken in 1907, gigantic strides have been made in taking account of intermunicipal variations in ability to finance education, and most of these in the course of two decades that have witnessed the greatest across-the-board stress on educational resources in history. The latest chapter in the development of educational finance in Ontario has only recently begun. The year 1964 brought the introduction of a wholly revised scheme of school grants entitled the Ontario Foundation Tax Plan.

The Ontario Foundation Tax Plan is not a pure "foundation plan" in the strict sense described earlier in this study. But it does attempt to rationalize and refine the equalization dimension of the 1958-63 grants by seeking to allocate provincial grants for operating expenditures on the basis of a formula that determines the financial position of individual boards more accurately than the old schedules and tables, which necessarily lump groups of boards into categories. In addition, it attempts to come to grips with the revenue deficiencies peculiar to separate schools through a Corporation Tax Adjustment Grant. Finally, the Plan offers a completely revised treatment of "recognized extraordinary expenditure". These major facets of the Foundation Tax Plan will now be described in turn.

Operating Expenditures

For operating or current expenditures, which are officially termed "ordinary expenditures", the Plan offers as an integrated scheme a basic tax relief grant and an equalization grant. The basic tax relief grant involves the payment of flat dollar amounts per pupil of average daily attendance in each of elementary, continuation, and academic and vocational high schools. For 1964, the amounts per pupil were fixed at \$80 (elementary), \$120 (continuation), \$175 (academic high) and \$250 (vocational high). The basic tax relief grant represents the minimum amount payable on behalf of ordinary expenditure to any given school board.

The equalization grant uses the basic tax relief grant as its point of departure. In addition, it involves two sets of data. The first is a foundation mill rate designed to represent a standard level of local fiscal effort. In 1964, the Province set two foundation mill rates: one of 11 mills for elementary schools and one of 7 mills for secondary schools. When applied to a school board's equalized taxable assessment, the foundation mill rates produce the yield of a standard local fiscal effort for that board. The second measure is a foundation level of annual operating cost per pupil of average daily attendance in each of elementary, continuation, and academic and vocational high schools. For 1964, these levels were set at \$210 (elementary), \$310 (continuation), \$410 (academic high) and \$550 (vocational high), calculated to reflect approximate province-wide average operating costs. The equalization grant for any given school board can now be readily calculated. It is the amount by which the foundation level of operating cost exceeds the sum of the board's basic tax relief grant and the yield of the foundation mill rate applied to the board's equalized taxable assessment.

For the arithmetically minded, the mechanics of the equalization grant can be summarized by means of the following equation:

$$\text{Equalization Grant} = FLOC \times ADA - (BTRG \times ADA + ETA \times FMR)$$

where FLOC = Foundation level of operating cost
ADA = Number of pupils of average daily attendance
BTRG = Basic tax relief grant
ETA = Equalized taxable assessment
FMR = Foundation mill rate

If the yield of the equation is equal to zero or is less than zero, the school board receives no equalization grant; but, of course, it always qualifies for its basic tax relief grant.

The advantages of the Ontario Foundation Tax Plan over its predecessors are apparent upon a few moments' reflection. Its basic asset is that it reduces to a simple equation what was previously a maze of tables, schedules and rates. Accordingly, the scheme can easily accommodate the changes that future needs or policies might dictate. The reader who examines the equation just given will readily appreciate that, for example, it is quite possible to increase the level of aid to wealthier school boards without increasing support elsewhere simply by raising the level of the basic tax relief grant. On the other hand, if more equalization favouring the poorer boards is warranted, this may be accomplished by reducing the foundation mill rates; if it is desired to extend equalization to some of the wealthier boards that just fail to qualify for an equalization grant at present, the foundation level of operating cost can be increased. Varying the levels of relative provincial support as between elementary and secondary education can be accomplished by varying the different levels of foundation mill rate, basic tax relief grant, or foundation operating costs (depending on the degree of equalization desired—if any) that apply to elementary and secondary schools respectively. Then, too, the Plan can accommodate special instances where specific provincial aid might be deemed necessary—the provision of education to handicapped children, for example—through variations in the definition of average daily attendance. Thus a handicapped child in an opportunity class might be counted as two pupils of average daily attendance, with a corresponding effect on the levels of the basic tax relief grant and foundation operating costs.

The above examples by no means exhaust the flexibility of the Foundation Tax Plan in terms of its capacity to accommodate desired policy departures. But they do illustrate that the Foundation Tax Plan exhibits that quality to which every part of a provincial and local revenue system should aspire—fiscal sophistication in a framework of simplicity.

Unfortunately, the above describes the potential of the Foundation Plan *in principle* only. In fact, the Plan, rather than allow its formula to apply automatically, has had to be hedged about with bewildering and cumbersome schedules of limitations that fill page upon page of regulations. For the reason, we need go no further than the structure of local institutions, which plagues every attempt to rationalize grant programs. At that, the inception of the Foundation Plan was accompanied by one of the boldest structural reforms in Ontario history. The Province at one stroke abolished more than 1,500 rural public school boards and

accordingly reduced the number of boards operating public schools from over 2,500 to slightly less than 1,000.[24] Even with this giant stride, however, the structure of local government continues to defy fiscal equity in a framework of simplicity.

The Corporation Tax Adjustment Grant

This grant forms an integral part of the Foundation Tax Plan but applies only to elementary school boards, more especially in practice to separate school boards. To appreciate the meaning of this grant, it is necessary to refer to the historical problem of separate school finance touched upon earlier. This dilemma is grounded in the simple fact that while closely owned firms can declare themselves to be separate school supporters if their owners meet the legally stipulated religious qualifications, many corporations, such as those whose shares are publicly traded, are not in a position to do so under the terms of The Assessment Act. The result is that separate school finance in most municipalities has been one of chronic fiscal deficiency, a situation that the corporation tax adjustment grant attempts to remedy.

The grant applies whenever two or more elementary school boards coexist within the boundaries of a given municipality, and is designed to compensate whichever school board receives a deficient share of the local property taxes paid by incorporated businesses. As constituted in 1964, the test of deficiency was whether the ratio of corporate assessment supporting the separate school board to residential and farm assessment supporting it was less than the ratio of total corporate assessment to total residential and farm assessment. When a deficiency appeared, the Province paid to the separate school board a grant whose amount was determined by applying the commercial mill rate for public school purposes in the municipality to the deficiency—i.e., to the additional assessment required to make the ratio of the board's corporation assessment to its residential and farm assessment identical to the proportion prevailing in the municipality as a whole.

It should be noted that, as an integral part of the Ontario Foundation Tax Plan, the corporation tax adjustment grant attempts to remedy an identifiable deficiency in support to separate schools without "over-equalizing" total provincial outlays in their favour. This is because the assessment on which the corporate grant is made is carried into the level of equalized taxable assessment that determines the school board's warranted support under the equalization grant formula of the Foundation Plan.

Recognized Extraordinary Expenditure

The third and final major facet of the Foundation Tax Plan bears on "recognized extraordinary expenditure", a term carried over from the 1958 grant structure. The term covers capital expenditures and certain current expenditures heavily affected by capital undertakings. Specifically, a school board's recognized extraordinary expenditure is the sum of: (1) capital expenditure out of current revenue; (2) debt charges; (3) transportation expenditure; and (4) 15 per cent of tuition fees paid to other school boards.

The Foundation Plan provides a basic tax relief grant payable to all school

[24]S.O. 1964, c. 95.

boards, of 35 per cent on recognized extraordinary expenditure. Then it provides for equalization grants according to a schedule that increases the basic grant in steps of 0.1 per cent according to declining ratios of equalized taxable assessment per classroom, a "classroom" being defined as a stipulated number of pupils of average daily attendance—usually 30. For 1964, two equalization schedules were in effect, one for elementary schools and the other for secondary. The elementary school schedule provided 0.1 per cent where equalized taxable assessment per classroom was $400,000 or over and additional tenths of 1 per cent to a maximum of 57 per cent where assessment per classroom was below $30,000. The secondary school schedule ranged from 0.1 per cent where assessment per classroom was above $1,200,000 to 55 per cent where it was below $150,000. Added to the basic 35 per cent applied to all school boards, this meant that the maximum provincial grants payable on behalf of recognized extraordinary expenditure to elementary and secondary school boards were 92 per cent and 90 per cent respectively.

In its treatment of recognized extraordinary expenditure, the Foundation Plan provides a growth-need grant designed to take account of school boards that operate under conditions of rapidly rising enrolment. In 1964, this grant provided an additional 0.1 per cent on recognized extraordinary expenditure for each $50 by which an elementary board's recognized extraordinary expenditure per classroom exceeded $500, and for each $25 by which a secondary board's exceeded $1,000.

The major dimensions of the Foundation Tax Plan have now been outlined. For the sake of comprehensiveness, passing mention should be made of relatively minor grant programs for such items as evening courses, library and textbooks and municipal inspectors. These grants do not form an integral part of the Plan's formulas but are essentially appendages.

Taken all in all, the Foundation Plan must be said to constitute a singular advance over earlier school grants. Within the significant limits posed by the structure of local institutions, the Plan provides unprecedented equity in the distribution of provincial funds among school boards. At this juncture, it is worth noting that the Foundation Tax Plan was designed precisely as a distributive device. In terms of across-the-board support to school boards, the Plan effected only a marginal rise in the over-all proportion that provincial grants bear to school board expenditure—42.3 per cent in 1964 by contrast to 39.2 per cent in 1963. The property tax therefore remains the anchor of school finance in Ontario, and it is to this source of revenue that we now turn.

THE PROPERTY TAX AND EDUCATIONAL FINANCE

Provincial grants to education are derived from the general revenues of Ontario, and so from the total mix of provincial taxes on income, wealth and consumption. The locally financed portion of educational expenditure, on the other hand, stands out in that it is derived entirely from a single tax: that on residential, farm and commercial assessment. The extent to which local contributions to education in an era of explosive expenditure have created an undue burden on the real property tax has become a common topic of provincial, indeed national, controversy.

The real property tax has not always shouldered the entire burden of expenditure by Ontario school boards. The earlier rate bills aside, local educational finance after 1871 (when elementary schools became "free") was based on both personal and real property. The personal property tax was abolished in 1904, but by the year 1921 (when secondary schools became "free") a number of cities taxed personal income. Hence only in 1936, when the latter source of revenue was removed from municipal jurisdictions, did real property become the sole mainstay of local boards. This leads to two conclusions. The first is that the solitary position of the real property tax *vis-à-vis* education does not have deep roots in history but rather is founded on deliberate policy decisions made at the provincial level of government. The second is that the problem of financing the local portion of education solely through the property tax is part of a greater conundrum posed by the fact that real property is the lone revenue base for *all* municipal functions.

The standard argument advanced against the use of the property tax for school purposes was touched upon in Chapter 5. It is based on an extreme application of the benefit-to-property criterion. Education confers no benefits on property. Therefore, the property tax should not be used to finance schools. Replying to this contention on its own terms, H. Carl Goldenberg wrote in his Report on municipal taxation in Winnipeg:

> . . . It has been submitted that education is a service to persons and not to property and should, therefore, be financed by taxes on persons only. Insofar as this submission denies the fact that schools also confer benefits on property, I reject it as invalid. While schools are a community asset conferring benefits on persons, they also directly or indirectly benefit property, whether residential, commercial or industrial. The value of schools to homes will not be questioned; people will not settle in communities without schools. Insofar as industry is concerned, it is on the school system that it depends for the education and training of its future employees, and in communities without schools for the children of employees there will not be found the pool of labor which is one of the determining factors in industrial location. To the degree that the financing of education is a municipal responsibility, I am therefore of the opinion that it is reasonable to expect that real estate, whether residential, industrial or commercial, should contribute toward the costs.[25]

At a somewhat different level, the same argument can be countered in the terms laid out in Chapter 5. In the last analysis, services confer benefits on persons rather than property. True, some services can be of greater benefit to persons in their capacity as owners or occupants of property than others. But in any event, no service financed by the property tax confers benefits on a *quid pro quo* basis. The benefit-to-property criterion is not a numerical concept but rather one that connects local services to property taxation in the sense that local inhabitants benefit from community amenities whose standards they should properly be able to adjust to their needs and desires. In this context, it should be stressed that local freedom to provide community-inspired standards of service is peculiarly appropriate in education. For this function, one of the means to fiscal equity—provincial assumption of the service—is distinctly uninviting because it leads to uniformity.

[25]Commission on Municipal Taxation in the City of Winnipeg, *Report* (Winnipeg, 1958).

Fiscal equity should rather be achieved through a combination of grants and boundary readjustment and should relate only to foundation standards of service. To the extent that certain communities, possibly the most affluent, choose to provide unusually high service standards, there is much to be gained. As Professor C. Lowell Harris has pointed out,

> In at least one respect, . . . substantial *inequality* may serve the *general public interest* constructively . . . I speak of education, the largest non-national expenditure. . . .
>
> . . . The world needs people with superior education. Everyone has an interest—one he may not always appreciate adequately—in the existence and the efficient use of people with the highest of training. Excellence—in diplomacy, statesmanship, art, science, medicine, architecture, entertainment, religion, judicial decision, national defense, or economics—requires great skill. It calls for extensive and expensive training. Not many school districts can afford top quality elementary or secondary schooling, at least not until we are a much wealthier nation than today. But some other communities are able and willing to provide much more than others. In doing so, these communities serve the *general* public. Inequality makes possible a kind of accomplishment for the whole society which would not be attainable under conditions of equality.
>
> . . . To repeat: the whole public benefits from excellence. The communities which offer superior education thereby help meet a need of the nation as a whole.[26]

In the light of the above discussion, the property tax must surely be said to have an appropriate role in school finance.

Of course, acceptance of the argument that the property tax can appropriately be used to finance education does not mean in the least that the relative size of the school burden is a matter of no concern. On the contrary, it is a matter of critical concern, because the property tax is the backbone of municipal as well as school finance. To sacrifice marginal quality in municipal services for higher educational standards is a decision that can appropriately be left in local hands, but to starve such services would be a matter for province-wide concern.

The relative size beyond which the school tax burden becomes unduly onerous is a matter for delicate judgment based on elaborate study. A fully satisfactory answer would involve, among other things, detailed research into the absolute size of the property tax burden and into the relative quality of school and municipal services, questions that fall outside the scope of this study. Yet the importance of the problem is such that it cannot be evaded in any discussion of educational finance, however modest in scope.

In this connection, Table 7:3 returns us once more to the municipal sample analysed in various sections of this study. The Table displays the relative school tax burden in each of the selected municipalities, grouped according to cities; towns, townships and villages in southern Ontario; and northern municipalities. It yields a single noteworthy insight. This is that in none of the fifteen southern cities is the relative school tax burden as high as 50 per cent. Indeed, the relative burden is

[26]C. Lowell Harris, "Comment", *Public Finances: Needs, Sources and Utilization*, A Conference of the Universities—National Bureau Committee for Economic Research (Princeton, 1961), pp. 129-30.

actually below 40 per cent in five cities, between 40 and 50 per cent in six, and above 45 per cent but still under 50 per cent in four. By contrast, among the other twenty southern municipalities, over one-half, namely twelve, reveal relative school tax burdens of *over* 50 per cent, of which seven are 55 per cent or more. In only two municipalities, Sturgeon Falls and Plantagenet South, is the relative school tax burden under 40 per cent. A similar situation prevails among the northern municipalities where the sole city in the sample, Sault Ste Marie, has a

TABLE 7:3

School Taxes as a Percentage of Total Local Tax Levy, Selected Ontario Municipalities, 1963

	School tax as a percentage of total tax levy
Cities (southern Ontario)	
Ottawa	49.2%
Hamilton	38.9
London	46.2
Windsor	34.4
St. Catharines	40.6
Kitchener	38.2
Oshawa	40.8
Brantford	39.4
Sarnia	46.1
Kingston	42.5
Peterborough	42.8
Cornwall	43.0
Guelph	36.5
Welland	47.1
Belleville	41.4
Towns, villages, townships (southern Ontario)	
Cobourg	56.8
Arnprior	40.3
Streetsville	55.0
Colborne	45.8
Wellesley	54.3
Springfield	41.7
Chippawa	54.2
Thedford	42.8 (1962)
Orillia	56.6
Wilmot	59.2
Maidstone	56.8
Woolwich	57.2
Charlotteville	50.3
Cumberland	43.9
Plantagenet S.	21.8 (1962)
Goderich	57.8
Delaware	53.5
Greenock	38.5
Hillier	54.9
Carden	41.6
Northern municipalities	
Sault Ste Marie	41.8
Timmins	43.7
Sturgeon Falls	31.7
Massey	51.2
Powassan	52.9
Teck	51.8
Atikokan	52.4

Source: Department of Municipal Affairs, *Annual Report of Municipal Statistics*, 1963.

relative school tax burden of 41.8 per cent while five of the seven remaining municipalities reveal burdens of over 50 per cent. It is evident, then, that the relative weight of the school tax burden is lighter in cities than elsewhere. What is to be read into this conclusion must, of course, be severely circumscribed for lack of other information. Thus it would certainly be faulty reasoning to conclude that the *absolute* weight of the school tax burden is greater among smaller municipalities than in cities; among other things, the equalization grants certainly would play a role in cancelling out this possibility. But on the other hand, it seems reasonable to contend that non-school functions are both more numerous and more costly in cities than they are elsewhere. The upshot, then, is that there perhaps exists a tendency for the relative school tax burden to decrease as urbanization increases. This is because the absolute burden of the property tax tends to be higher in those communities that are called upon to supply sophisticated municipal services.

TABLE 7:4

School Taxes as a Percentage of Total Local Tax Levy, Province of Ontario, 1932–1963

Year	*School tax as a percentage of total levy*	*Year*	*School tax as a percentage of total levy*
1932	30.5%	1948	34.3%
1933	29.9	1949	35.2
1934	30.2	1950	35.7
1935	31.0	1951	37.7
1936	31.4	1952	38.5
1937	33.2	1953	40.1
1938	34.1	1954	39.8
1939	34.8	1955	41.6
1940	35.5	1956	42.9
1941	36.8	1957	43.1
1942	37.9	1958	42.5
1943	38.9	1959	44.2
1944	39.4	1960	44.4
1945	32.2	1961	44.9
1946	32.0	1962	45.1
1947	33.4	1963	45.3

Source: Department of Municipal Affairs, *Annual Report of Municipal Statistics*, 1963.

One other approach to the problem of the school tax burden suggests itself as appropriate within the limits imposed by the scope of the present study. This simply involves a straightforward presentation of historical data. Table 7:4 shows the size of the school tax burden as a percentage of the total property tax levy in Ontario for all years from 1932 to the present. The Table reveals that school taxes hovered around one-third of the total local levy until the War. They then climbed to between 35 and 40 per cent of total taxes during the war years, probably because education was less deferrable than other expenditures. The relative school tax burden subsequently returned to the one-third range with the advent of peace, due undoubtedly to the combination of the new school grants introduced in 1945 and an increased level of spending on strictly municipal functions. By 1950, however, the pressure created by burgeoning enrolment was making itself

felt, and from that year to the present the relative school tax burden has increased almost without respite, reaching a high of 45.3 per cent in 1963.

Two conclusions emerge from the foregoing statistical data. Succinctly reviewed, they are (1) that the relative size of the school tax burden, smaller in cities than elsewhere, is in part an inverse function of urbanization; (2) that the relative size of this burden, measured across the board, has increased significantly since the early 1950's.

EDUCATION AND MUNICIPAL FINANCE: AVENUES OF CHANGE

As in the realm of general municipal finance, we must now turn from the domain of description and analysis to that of prescription. At the outset, it is worth stressing that the findings just disclosed with respect to the relative size of the school tax burden reinforce one of the principal contentions advanced in Chapter 6: the urgent need for the Province to devise means whereby grants for *all* purposes, including education, will be made with respect to the over-all fiscal position of local authorities. While the existing structure of local government incorporates a time-honoured divorce between municipalities and school boards, education and general municipal functions both must be financed locally from the same tax, that on property. Since the provincial grant level is the most critical determinant of the property tax burden, it follows that all grants, whether to school boards or municipalities, must ultimately be considered jointly. What follows will serve in part to expand upon and reinforce this conclusion. But let us first broach the advisability of technical changes in the Ontario Foundation Tax Plan proper.

Technical Changes in the Ontario Foundation Tax Plan

As it applies to operating expenditures, we have noted that the Ontario Foundation Tax Plan represents an outstanding improvement over earlier grant schemes, and has admirable potential for further development both as a flexible instrument of provincial policy and as a means toward still greater equity. But this potential, as for that matter the actual operation of the Plan, is severely circumscribed by the multiplicity of school boards in Ontario. Doubtless the most encouraging portent for the future of the Plan lies in the fact that the Province took direct action to reduce the number of school boards in the year of its inception. If this step foreshadows yet further structural reform, improved operation of the Plan is virtually assured.

There are two, perhaps three, technical changes that might be incorporated into the Plan while awaiting further structural reform. The first involves the manner in which the pupil load is calculated for grant purposes. As constituted, the Plan calculates a school board's grant for any given year on the basis of the previous year's average daily attendance. The use of average daily attendance provides all the accuracy inherent in a school's complete attendance record, duly checked by inspectors and provincial administrators. But the time lag that attaches to this measure penalizes school boards in direct relation to the extent to which their enrolment is rising. It would seem that a highly desirable alternative would be to base a school board's grant on current enrolment estimates. If this resulted in an overpayment to certain school boards whose current enrolment estimate

exceeded their actual attendance, the grants to these boards for a succeeding year could be reduced accordingly.

A second technical improvement in the Foundation Plan's treatment of operating expenditure relates to the ten or so small grants that form an appendage to the Plan but are not an integral part of the formula. A few of these grants might perhaps be abolished for the sake of simplicity; the more important ones—those for library books, textbooks, municipal inspectors' salaries, special subjects instruction, and small secondary schools—beg wholesale incorporation into the Plan's formula either by weighting the pupil load calculations or by revising the foundation levels of operating cost.

The general calculation of foundation costs brings us to the third opportunity for technical improvement in the Plan, but admittedly one that may not be possible without a further reduction in the number of school boards. Inquiry has revealed that foundation levels of operating cost are only loosely calculated, this because of the incredible diversity posed by the existing multiplicity of boards. Nevertheless, the feasibility of more accurate calculations, perhaps through regional differentiation in foundation levels, begs consideration. A regional differentiation as gross as one between northern and southern Ontario (given the climatic rigour that enhances maintenance costs and the population sparsity that increases transportation costs in the northern part of the province) might constitute a valuable improvement.

Beyond the realm of general operating expenditure we now confront the corporation tax adjustment grant, whereby the Fundation Plan has attempted to come to grips with the chronic assessment deficiencies that have plagued separate school finance. As noted, this feature of the Plan again offers substantial amelioration over what has prevailed in the past. But what lies at the base of the historic fiscal problem of separate school finance remains: the fact that the inability of impersonal corporations to declare as between public and separate school support creates a windfall for public school boards. It may be that the ultimate solution to this problem, if indeed it should be sought, lies in revising The Assessment Act rather than in further changes to the grant system.

There now remains the Foundation Plan's treatment of "recognized extraordinary expenditure". If anywhere, it is here that the Plan offers the least improvement over earlier practice. In sharp contrast to what prevails in the realm of operating costs, the Plan's treatment of capital and related expenditure continues to rely on cumbersome tables and schedules. This may well stem from the inability of the school board structure to accommodate more sophisticated grant treatment. Nevertheless, the susceptibility of capital and related expenditures to grant treatment by formula merits serious attention.

A final prescriptive note should be made in reference to two aspects of school finance that are unrelated to the fiscal dimensions of the Foundation Tax Plan. The first is a legislative provision in The School Administration Act which requires that the school portion of the mill rate applied to residential and farm property be calculated so that it is 90 per cent of the corresponding mill rate on industrial and commercial property. This provision is the legacy of the school tax assistance grants, which were incorporated into the basic tax relief provided by the Founda-

tion Plan. As discussed in Chapter 6, preferential treatment of designated classes of property, if warranted, is properly a matter for assessment reform. Second, there is the very interesting question of the special grants for vocational school construction that have emanated from the federal-provincial Technical and Vocational Training Assistance Act of 1960. Here school finance has borrowed a leaf from the worst administrative dimension of grants to municipalities. The making of federal-provincial grants for vocational school construction has been totally divorced from the Ontario Foundation Tax Plan. The vocational grants have been administered by a distinct division of the Department of Education, without so much as a detailed exchange of information with the division administering the Plan. Can there be an acceptable reason for this state of affairs?

Enhancing the Level of Provincial Aid to School Boards

The Ontario Foundation Tax Plan was devised to improve the distribution of provincial grants among school boards. It has not resulted in a noticeably enhanced level of across-the-board assistance to these entities, although it could of course accommodate such a change. Is there a case for increasing general provincial assistance to school boards? It is here that we confront the indivisibility of school and municipal finance. Higher levels of provincial assistance to school boards are bound to have one or a combination of the following effects: (1) greater quality in primary and secondary education; (2) higher standards of general municipal services; (3) a reduction in the level of property taxation.

These possible effects offer alternatives which local government as constituted at present cannot consider in co-ordinated fashion. Let us recall the privileged position that education has so long enjoyed in the local political arena. Because school boards requisition their operating needs from municipal councils, there exists no local decision-making body to set priorities among education, general municipal services and tax levels. Such a body could only be brought about by making education a responsibility of the municipal council, as in the United Kingdom and the counties of the Province of Alberta. In Ontario, because school board boundaries differ from municipal boundaries in a majority of instances, this reform cannot be achieved save as part of a general overhaul of local government. In Ontario too, constitutionally guaranteed separate schools pose a special problem. But might not such schools also flourish under municipal councils? The integration of school and municipal responsibilities is a reform no less drastic than it is appealing. It merits the most searching examination. A much less demanding alternative is simply to end the requisitioning powers of school boards, thereby forcing them to collect their taxes directly from the electorate. But just as it is less demanding, so also is it less rewarding. Probably not even an electorate of philosopher-kings could set priorities as consciously as a single representative and responsible local council.

Whatever reform—if any—takes place at the local level, integration of all grant decisions at the provincial level remains indispensable. Across-the-board increases in school grants, larger conditional grants to municipalities, new unconditional grants or shared taxes are alternative instruments each of which must be financed from non-property tax revenues whose burden differs from that of the

property tax. This involves a judgment as to what the total tax mix for provincial and local services should be. And choosing the particular instrument involves judgment as well. For instance, is a reduction in the level of the property tax more likely to result from unconditional grants to municipalities than increased aid to school boards? Again, is the admittedly sophisticated Ontario Foundation Tax Plan a better means of distributing additional provincial aid to local inhabitants than any unconditional grant formula that could be devised to suit the existing municipal structure? To repeat: clearly focused responsibility somewhere in the provincial government for all decisions affecting local finance is indispensable.

The reform of provincial-local fiscal relations in Ontario ultimately involves the complete overhaul of a local structure that has become hyper-fractionalized and quasi-subordinated. Integration of the hyper-fractionalized grant policies that obtain at the provincial level is the all-important, and far from easy, first step.